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THE NETHERLANDS AND THE WORLD WAR

STUDIES IN THE WAR HISTORY OF A NEUTRAL

VOLUME IV

ECONOMIC AND SOCIAL HISTORY OF THE WORLD WAR

JAMES T. SHOTWELL, LL.D., *General Editor.*

NETHERLANDS SERIES

H. B. GREVEN, LL.D.

FORMERLY PROFESSOR ORDINARIUS OF POLITICAL ECONOMY AND STATISTICS AT THE UNIVERSITY OF LEIDEN

Editor for the Netherlands.

THE NETHERLANDS AND THE WORLD WAR

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WAR HISTORY OF A NEUTRAL
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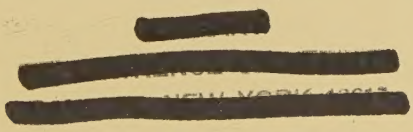
THE EFFECT OF THE WAR UPON BANKING AND CURRENCY

By Dr. G. VISSERING
PRESIDENT OF THE NETHERLANDS BANK
AND
Dr. J. WESTERMAN HOLSTIJN
DIRECTOR OF THE NETHERLANDS BANK

WAR FINANCES IN THE NETHERLANDS, 1918-1922: THE COSTS OF THE WAR

By Professor Dr. H. W. C. BORDEWYK
PROFESSOR OF POLITICAL ECONOMY AT THE UNIVERSITY OF GRONINGEN



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EDITOR'S PREFACE

In the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the program of its researches to the new and altered problems which the War presented. The existing program, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of a historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an "Economic and Social History of the World War," it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally towards the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction, but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed

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according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents, but also the coöperation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War, the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1918. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially towards those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey, but rather as of contemporary value in the period of war settlement. It was clear that not only could no general program be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the War, one based more upon national grounds in the first instance, and less upon purely international coöperation. Until the facts of

national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification were needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving as it does the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest coöperation of those in charge in each country.

Once the editorial organization was established there could be little doubt as to the first step which should be taken in each instance towards the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the forms of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

The first stage of the work upon the war history, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research, and had the plan of the history been limited to research based upon official document, little more

could have been done, for once documents have been labeled "secret" few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first- or at least second-hand knowledge the economic history of different phases of the Great War, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about halfway between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary war-time studies; for the economic history of the War must deal with a longer period than that of the actual fighting. It must cover the years of "deflation" as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude towards those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the

facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to the monographic treatment of source material, a number of studies by specialists are already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization; in the first stages of a history like this, one is only "picking cotton." The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied coöperation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programs of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

The arrangement of the monographs in The Netherlands Series needs perhaps a word of explanation. As may be seen by reference to the editorial note prefacing the monograph by Dr. Van der Flier, *War Finances in the Netherlands up to 1918*, that monograph was

prepared at an earlier date than the others and published before it was possible to complete the series as a whole. The result has been to divide the subject of the Netherlands' war finances into volumes published separately. In a sense Dr. Van der Flier's monograph is an integral part of the present volume.

J. T. S.

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I

THE EFFECT OF THE WAR UPON BANKING AND CURRENCY

BY G. VISSERING AND J. WESTERMAN HOLSTIJN

AUTHOR'S PREFACE

The Carnegie Endowment for International Peace has done me the honor of inviting me to collaborate in the Economic and Social History of the World War by giving a survey of the money market, the banks, and the foreign exchanges in the Netherlands during the period 1914 to 1922.

The invitation reached me through Professor Dr. H. B. Greven, editor for the Netherlands, as intermediary.

I was very willing to accept this invitation; but the extent of my daily occupations did not leave me sufficient time to undertake the whole of the task personally. After considering the matter with Professor Greven, I therefore invited Dr. J. Westerman Holstijn, one of my colleagues at the Netherlands Bank, to assist me in the work, an invitation which was readily accepted by him.

I further wish to mention the valuable assistance rendered by Dr. A. M. de Jong, of the Statistical Division of the Netherlands Bank, in collecting materials and helping to draft the scheme of the work.

To both these gentlemen I wish to express my sincere thanks for their collaboration, each in his sphere.

G. Vissering.

CHAPTER I

THE MONEY MARKET

SECTION 1.

Principal events, and emergency measures taken on the outbreak of the World War.

When the reply of the Serbian Government to the Austrian ultimatum of July 23, 1914, became known, the same phenomenon appeared in the Netherlands as was seen in most of the other countries of Europe, namely, the Amsterdam Stock Exchange began to show signs of grave tension. On Monday, July 27, a violent fall in the price of stocks set in, partly influenced by the unfavorable turn of the London stock market. Some of the leading securities dropped tens of per cent: Royal Dutch Petroleum, for instance, fell from 546 to 481, Consols Dutch Petroleum from 205 to 157, Amsterdam Rubber from 102 to 96, and shares of the Deli Maatschappij from 494 to 473. The following day the situation assumed a far more critical appearance: business was reduced practically to a standstill, and the depression was general. Under these circumstances, the Stock Exchange Committee decided to close the Exchange on Wednesday morning, July 29, 1914, after Austria-Hungary had formally declared war on Serbia.

The significance of this extraordinary measure can be properly appreciated only if one is more or less acquainted with the manner in which money is advanced on the Amsterdam Stock Exchange. This is done on the so-called "prolongation," or monthly loan system, which has been followed at Amsterdam for centuries, but which is somewhat different from the methods employed elsewhere for the same purpose. The "prolongation," or monthly loan system is, briefly, that the borrower receives money against the pledge of securities at the rate of interest of the day on which the loan is contracted, plus a commission which at that time was 1 per cent per month, but which in April, 1920, was increased to 1½ per cent per month. The agreement is usually made for the period of one month, but is legally prolonged on the expiry of this term, unless either of the parties expressly gives notice that he wishes to terminate the

agreement. This notice must be given on the Stock Exchange. The securities deposited by way of pledge must always show a certain margin (10 to 20 per cent) over and above the sum borrowed, based on the last official quotation of the securities. Should the value of the securities drop below the necessary amount, the borrower is obliged to supplement his security correspondingly not later than the next day. If he fails to do so, the lender is authorized to have the pledged securities sold on the Exchange by two brokers and to satisfy his claim from the proceeds.

From this short description, the significance of the closing of the Stock Exchange will be readily appreciated. The consequence was that no official quotations were fixed, so that the value of the securities pledged for the loans had to be calculated according to the quotations of July 28, 1914; and, consequently, no further obligation arose to supplement, in order to maintain the margin. A further result was that the current contracts of "prolongation," or monthly loan, could not be terminated by notice. In fact, this was precisely what the measure intended. The object was to prevent the numerous "executions," or forced sales of defaulters' securities, which would have been the inevitable result of a further fall in the official quotations and which would have involved incalculable losses.

The closing of the Stock Exchange had, however, another aspect. It protected the borrowers and the jobbers, but it threatened to bring the lenders into great difficulties, since it deprived them of the possibility of recovering the funds invested by them on the Stock Exchange. This was the more alarming because it is customary in the Netherlands, or at least this was the case before the War, for many institutions and corporations not directly connected with the stock and share trade, such as large banks, steamship companies, Netherlands East Indian plantation companies, insurance companies, savings banks, and mortgage banks, in fact for practically all large firms having surplus cash on hand, to invest their temporarily available funds in large amounts in "prolongation," or monthly loans on the Stock Exchange, through the intermediary of stock jobbers. Owing to the closing of the Stock Exchange, all these concerns were suddenly faced with the fact that they could not realize a portion of their assets which, up to that moment, they had deemed eminently liquid and available.

It is obvious that this created a very dangerous condition of af-

fairs. The entire credit traffic seemed suddenly to have been blocked, and business of all kinds threatened to be dislocated in a most serious manner.

In order to ward off this danger, a systematic relief action was immediately organized. On July 31, 1914, the leading banks and bankers,[1] with the assistance of the Netherlands Bank (the Bank of Issue of the Netherlands), formed a syndicate with the object of meeting the most urgent credit requirements of trade and industry. This syndicate secured the coöperation of the *Vereeniging voor den Geldhandel*, an organization of Amsterdam banks and bankers which had not been very active during the last few years, but which was now hastily revived at the suggestion of the late Dr. F. S. van Nierop, manager of the Amsterdamsche Bank. An arrangement was made according to which, under partial guarantee of the syndicate, the sum of 200 million guilders was to be advanced through this association, as the executive instrument, in order to meet the most urgent credit requirements of the moment. In this manner it became possible to assist a large number of persons and concerns who could not obtain any further credit from their usual sources, even if they could only offer security which the Netherlands Bank would not have accepted as such under normal circumstances.

In connection with the formation of this relief syndicate and the granting of the credit of 200 million guilders by the Netherlands Bank, several other important measures were taken on the same day, July 31, mainly with the object of strengthening the position of the Netherlands Bank as much as possible.[2] In fact, like most other

[1] The Netherlands Trading Society, the Rotterdamsche Bank, the Amsterdamsche Bank, the Twentsche Bankvereeniging, B. W. Blijdenstein and Company, Hope and Company, van Loon and Company, Nederlandsch-Indische Handelsbank, Lippmann Rosenthal and Company, Incasso-Bank, R. Mees and Zoonen, Wertheim and Gompertz, Adolph Boissevain and Company, Gebr. Teixeira de Mattos, A. van Hoboken and Company, Internationale Crediet- en Handelsvereeniging Rotterdam, van Eeghen and Company, Wiegman's Bank, Wissel- en Effectenbank, Disconto Maatschappij, Marx and Company's Bank, Vermeer and Company, and the Nederlandsch-Indische Escompto-Maatschappij.

[2] Otherwise than in the Netherlands East Indies where, since the Russo-Japanese War, the idea of possible foreign complications had become more or less familiar, and where the line of action of the Bank of Issue had been prepared in great detail in case of such an event, the measures to be taken

banks of issue, the Netherlands Bank is restricted to certain limits with regard to the expansion of its credit operations. The Bank's Charter, as fixed by law, stipulates that the liabilities of the Bank which are payable on demand (*i.e.*, the total of bank notes in circulation, of the balances of account current, and of bank "assignations") must be covered by coin or bullion in a certain proportion fixed by Royal Decree. Since the year 1864, this proportion was two-fifths, or 40 per cent. Now the bank-note circulation of the Bank on July 25, 1914, the date of the last weekly return before the declaration of war, was, in round figures, 310 million guilders. The balances in current account on that date were nearly 5 million guilders, and the total liabilities payable on demand were 317 million guilders. On the other hand, there was a metallic stock of more than 170 million guilders, so that the available metallic balance (170 million guilders less 40 per cent of 317 million guilders) was upwards of 43 million guilders. In other words, this meant that the Bank, as long as its metallic stock was not reduced, could increase its bank-note circulation by a further 100 million guilders, or more than 30 per cent, without infringing the legal regulations with regard to its metallic backing. Under normal circumstances, this position could, without doubt, be considered perfectly adequate. If, however, the Bank wished to open without anxiety a credit of 200 million guilders on behalf of the *Vereeniging voor den Geldhandel* and at the same time continue to grant credit on the usual basis, it seemed necessary to increase considerably its liberty of movement.

This object was met by a Royal Decree of July 31, 1914,[3] issued at the request of the Management of the Bank, which reduced the obligatory metallic cover of the Bank's liabilities payable on demand from 40 to 20 per cent. As, however, the considerable extension of the bank-note circulation thus rendered possible might easily lead to the outflow of gold to foreign countries, the export of gold was simultaneously prohibited by another Royal Decree of the same date,[4] also issued at the suggestion of the Netherlands Bank, except in special cases in which the Government would grant exemption.

in the Netherlands had not previously been laid down in writing as a fixed program. They were, however, so obvious that entire agreement was immediately reached as to their contents.

[3] *Staatsblad* No. 334.

[4] Royal Decree of July 31, 1914, *Staatsblad* No. 333.

This Royal Decree was confirmed a few days later by the Act of August 3, 1914.[5]

Ultimately another Act, dated August 3, 1914,[6] made an important amendment to the Charter of the Netherlands Bank. It stipulated that in case of war or danger of war, the Bank's obligation to pay its notes as defined in that Charter could be temporarily suspended by Royal Decree. It was not, however, necessary for the Government to make use of this power, nor did the Bank ever need to appeal to that measure. This was to a large extent due to the introduction of the silver bonds or notes to be referred to below, which enabled the Bank to pay its notes in a form of legal tender other than gold or silver.

In the meantime the effects of the alarm which had led to the closing of the Stock Exchange on July 29 soon appeared in many ways throughout the whole country. They were revealed, for instance, by runs on banks and savings banks, and in a general tendency to withhold silver coin from circulation or, in other words, to hoard it.

The run on the banks was only of comparatively short duration and did not give rise to any special difficulties. On July 30 the Post Office Savings Bank received 2,871 applications for withdrawal of deposits for sums totaling one million guilders; the next day there were 6,874 applications, representing a total of nearly 2.6 million guilders; and on August 1 the number reached 13,771, for a total sum of more than 4.8 million guilders. The significance of these figures will be clear when we add that the normal number of applications for withdrawal of sums from the Post Office Savings Bank before the outbreak of the War was between seven and eight hundred per day, representing a total of 180,000 guilders. In order to protect the Post Office Savings Bank to some extent against this run, a Royal Decree of August 3, 1914, extended the period of fourteen days, within which the Savings Bank is in normal circumstances obliged to pay applications for withdrawal of moneys, to six months. It was, however, provided that the sum of 25 guilders per week could be withdrawn from each savings bank account during this half-year. It was not necessary for the Post Office Savings Bank to make use of this right to postpone payment save to a very limited extent. On August 4, 1914, the number of applications for with-

[5] *Staatsblad* No. 344. [6] *Ibid.*, No. 345.

drawal of deposits diminished considerably, and after fourteen days the position in this respect had practically returned to normal.[7] The ordinary banks also experienced for a few days an unparalleled demand on their deposits. Between July 28 and August 1 the Amsterdamsche Bank, for instance, received applications for the withdrawal of upwards of 20 million guilders in deposits and balances in current account.[8] During the first five days of the crisis, the withdrawals from the Rotterdamsche Bankvereeniging were close to 24 million guilders;[9] while from the Incasso-Bank 6.4 million guilders were called for.[10] Thanks to the ready aid, *inter alia*, of the Bank of Issue, which in the period between July 29 and August 5, 1914, increased its discounts and loans (including the advances in current account by a total of upwards of 150 million guilders, or more than 100 per cent, all the banks without exception were able to meet the demands made upon them. The large institutions at Amsterdam and Rotterdam immediately complied, as a rule, with every request for the withdrawal of deposits. As, however, it was not reasonable that deposits should be returned simultaneously throughout the whole country, with the sole result that the public would hoard up the ready cash thus obtained, the provincial bankers, on the advice of the Netherlands Bank, at first restricted payments to such sums as were necessary for livelihood, wages, and other imperative obligations. When, after a few days, the general public had calmed down, these bankers, again on the recommendation of the Netherlands Bank, began to apply this restriction much less severely.

The desire to hoard up silver coin which seized the public on every hand caused far more difficulties than the run on the banks.[11] The

[7] *Annual Report* Post Office Savings Bank, 1914, pp. 3, 4.

[8] *Annual Report* Amsterdamsche Bank, 1914, p. 5.

[9] *Annual Report* Rotterdamsche Bankvereeniging, 1914, p. 3.

[10] *Annual Report* Incasso-Bank, 1914, p. 5.

[11] For the proper understanding of what follows it may be noted here that the Netherlands Coinage Act of May 28, 1901, *Staatsblad* No. 132, as amended by the Acts of December 31, 1906, July 1, 1909, and October 31, 1912, mentions four different kinds of coin, *viz.:* (1) gold coins of 10 guilders and 5 guilders; (2) silver coins of 2.50 guilders, 1 guilder, 0.50 guilder, 0.25 guilder, 0.10 guilder; (3) a nickel coin of 5 cents; and (4) bronze coins of 2½ cents, 1 cent, and ½ cent. The gold coins and the silver coins of 2.50 guilders, 1 guilder, and 0.50 guilder are legal tender to any amount, while the remaining coins are only legal tender to restricted amounts. Gold coins of 10 guilders and 5 guilders are not, and for many years before the out-

fact that this phenomenon appeared at a moment when trade, in consequence of the mobilization of the army and the general demand for cash payment in view of the uncertain situation, had an exceptional need of the smaller means of payment caused this movement to spread with enormous rapidity. Everybody tried to secure guilders and rijksdaalders (pieces of 2½ guilders), and the demand for coin assumed unprecedented dimensions. In shops, restaurants, Post Offices, and railway stations, bank notes were presented in payment for small amounts with the sole object of receiving change in silver coin. The offices of the Bank of Issue were literally besieged by people who wished to exchange their bank notes for coin. Although the Netherlands Bank complied with these demands as far as possible, and although, at the same time, the Government and the Press warned the public against the foolish hoarding mania, it seemed impossible to arrest it. During the first few days of August, the larger silver coins practically disappeared from circulation.

Needless to say, this created an extremely alarming state of affairs. The urgent need of the smaller means of payment threatened to disorganize economic life in the most radical manner unless swift measures were taken. There was no possibility of coming to the rescue by bringing fresh silver into circulation. Owing to various circumstances, the stock of silver coin in the vaults of the Netherlands Bank was already very small at the outbreak of the crisis, and the calls upon it during the last few days had reduced it to less than 3 million guilders. There was absolutely insufficient time to coin a fresh quantity of guilders and rijksdaalders, even assuming that it were possible to obtain the necessary material in adequate quantities and, above all, it was clear that even if it were possible to put large quantities of new silver coin into circulation, it would have been futile to do so, as the new silver would simply have followed the old. It would have been immediately hoarded up, and the circulation would have been as poor in the smaller media of payment as before.

Under these circumstances the Government, at the suggestion of the Netherlands Bank, decided to issue paper money with the least possible delay. A bill was passed on August 6, 1914,[12] authorizing

break of the War were not in circulation to any appreciable extent. The amount of silver, nickel, and bronze circulating media before the War was estimated at about 65 million guilders.

[12] *Staatsblad* No. 377.

the Government to issue notes, under the name of "silver bonds" (*zilverbons*) of 1 guilder, 2.50 guilders, and 5 guilders, to a maximum total of 25 million guilders; and these were made legal tender to any amount. The issue of these notes bore the character of an emergency measure, and it was decided that they should be withdrawn as soon as possible. As, moreover, the Charter of the Netherlands Bank forbids the State to issue paper currency under penalty of the State losing its share in the profits of the Bank and forfeiting its right to an advance without interest, it was expressly stipulated that the Bank should not consider the silver bonds as paper currency in the sense of the Bank's Charter. On the other hand, the State undertook to withdraw the silver bonds from circulation as soon as the Netherlands Bank should place sufficient silver at the disposal of the Government with which to redeem them. The silver bonds were printed with the greatest possible speed; the sum of 1.7 million guilders in this new medium of payment was already delivered on August 7; and on the evening of August 8 the sum of 1.4 million guilders in silver bonds was in circulation. A week later this amount had increased to 8.3 million guilders, and on August 22 it had reached 12.7 million guilders.[13]

Like the other measures taken to meet the crisis, the issue of silver bonds had a most excellent effect. Together with the formation of the relief syndicate of the bankers on July 31, it largely helped to restore confidence and calm in financial circles; and a certain relaxation set in as soon as it appeared that it was not likely that the Netherlands would be involved in the War.

To a certain extent this was also certainly due to the fact that no moratorium was proclaimed in the Netherlands, in contrast with what took place in many other countries. It is true that, during the first few days of the crisis, such a measure was urged by many quarters and even in Parliament, but the Government considered that it

[13] In the meantime, however, various municipal corporations had in the week of August 3-8 issued cash notes, with the explicit or tacit consent of the Government, in order to meet the alarming shortage of small coin, since they foresaw difficulties in connection with the payment of wages on Saturday, August 8. This was done in twenty-three corporations (including Amsterdam and Rotterdam) for a total amount of 990,000 guilders. A number of factories, restaurants, etc., also issued notes of their own as money; but as soon as there were sufficient silver bonds in circulation, these municipal and other cash notes were withdrawn.

was its duty to resist this pressure. In this connection the Government enjoyed the strong support of the Netherlands Bank and of the other large banking concerns, who most emphatically advised against the proclamation of a moratorium. The Government agreed with the Bank that a moratory law could only aggravate the general alarm and that, as a matter of fact, there was really no cause for such a rigorous measure. Subsequent events proved this view to be correct.[14]

It was, however, a considerable time before affairs were so far restored to normal that the Stock Exchange could be reopened. It is obvious that this could not be done before an arrangement had been reached with regard to the settlement of the items outstanding on July 29, 1914, but the drafting of such an arrangement proved to be anything but a simple matter.

As a preliminary step to arriving at a satisfactory solution, a special Act of September 4, 1914,[15] now generally known as the "Beurswet 1914" (Stock Exchange Act 1914), placed the Stock Exchange under the control of the Minister of Trade (subsequently transferred to the Minister of Finance). This Minister was given power to decide whether the Stock Exchange should be opened or closed, and to lay down regulations regarding the quotations and the manner in which business should be done on the Exchange, as well as with regard to the settlement of transactions dating from before July 29. With respect to the last-mentioned point, the Act itself stipulated that the Minister should fix the quotations which were to serve as a basis for calculating the value of the securities pledged for pre-crisis loans, and that the power of the lenders to realize the security in case the debtors did not meet their obligations would be subject to certain restrictions with regard to these loans.

[14] In the meantime, however, the fairly numerous debtors who found themselves in financial difficulties owing to the crisis could not be left entirely without protection. For this purpose the Act of September 4, 1914 (*Staatsblad* No. 444), stipulated that debtors who were sued at law by their creditors for payment of their debts, but who could not, for the time being, meet their liabilities in consequence of the extraordinary circumstances, could obtain from the magistrate suspension of payment for a period of six months. The danger of bankruptcy for this category of creditors was thus reduced to a minimum even without a moratorium.

[15] *Staatsblad* No. 445.

Finally, for the benefit of the lenders, a clause was inserted in the Act authorizing them to repledge the securities which they held for the loans they had granted.

The drafting of the regulations which were to be laid down by the Minister of Finance in accordance with the terms of this Act was no light task. One of the difficulties, for instance, was that it was impossible to say with any degree of certainty what the actual amount of monthly loans outstanding was at that moment. No positive figures were available, and personal estimates varied considerably. In order to surmount this difficulty, the president of the Netherlands Bank, in his function as such and on the guarantee of the strictest secrecy, requested all lenders and borrowers of monthly loans to submit a statement of any sums advanced or borrowed by them on the Exchange. The result of this inquiry showed that the total amount advanced by the original lenders on the Stock Exchange represented the sum of 325 million guilders. As a portion of this had been reinvested in loans by the original borrowers, it was calculated that the total of all monthly loan agreements on the Exchange amounted to 460 million guilders.

After having thus obtained the necessary information as to the volume of the transactions dating from before July 29, 1914, the Minister of Finance proclaimed very detailed "Regulations for the Stock Exchange" (*Beursvoorschriften*) on January 15, 1915, which were to come into force as soon as the Exchange was reopened. It would take us too far from our subject to enter into these regulations in detail.[16] It is sufficient to state here that they authorized the borrowers to "block" loans dated previous to July 29, 1914, and with a security, based on quotations to be fixed by the Minister of Finance when the Exchange reopened (the so-called *onderpandkoersen*), showing a surplus of 20 per cent. This "blocking" consisted in making an arrangement to the effect that, if the borrower so desired, payment of the loans could not be claimed until six months after the conclusion of peace. The rate of interest to be paid for these "blocked" loans was to be fixed by the Minister, who for the first time set it at 6 per cent per annum.

When this point had been reached, there was no reason why the Stock Exchange should be kept closed any longer. On February 9,

[16] A short extract from these regulations will be found in *The Economist* (London) of January 30, 1915, p. 186.

1915, it reopened its doors, at first only for transactions in a limited number of stocks, which was, however, soon extended considerably. During the year 1916, practically all stocks and shares which appeared on the official list in pre-war days were again quoted. The Exchange Regulations worked most satisfactorily in this respect and greatly facilitated the gradual settlement of the transactions dating from before the crisis. In consequence of the rise in American securities, which had commenced in the autumn of 1914 and continued during 1915, and of the increasing abundance of money which set in during this period (a subject which will be touched upon later), these settlements eventually had such an unexpectedly favorable course that the greater part of the transactions referred to had been entirely liquidated before the end of 1915. To a certain extent, this was certainly also due to the assistance of the Netherlands Bank, which, under certain conditions, was prepared to take over "prolongation" transactions dating from before the crisis, both blocked and not blocked.[17]

This is perhaps the most suitable place to state briefly the subsequent history of the other measures referred to above which had been adopted to meet the crisis. The activities of the Bankers' Association (*Vereeniging voor den Geldhandel*) did not assume such proportions as was originally expected. Although a credit of 200 million guilders was, as we have seen, placed at its disposal, the Association did not need to apply to the Netherlands Bank for more than 32 million guilders. The salutary effect of the relief syndicate formed on July 31, 1914, could hardly be better illustrated than by this very fact. The certainty that credit was available to any extent, if necessary, through the Bankers' Association soon acted as oil on the waters and finally resulted in far less credit being applied

[17] This action on the part of the Bank meant that it agreed to accept securities as pledge which in normal circumstances would have been refused, monthly loan securities not being to a large extent Bank securities. Further, the principle was adopted that the transfer should not involve a financial profit for the borrower, and to this end a somewhat higher rate of interest was charged for these items than the Bank usually charges for ordinary advances. Moreover, the Bank retained the right to fix the amount to be advanced in each separate case with a view to the value they desired to attach to the security, so that it was not always possible for the full amount of the monthly loan to be advanced.

for than would otherwise have been the case. In this connection it must be added that, with regard to the applications for credit through the Bankers' Association, the rule was adopted from the very first, that this Association's intervention should be granted only in cases in which the applicant could not be aided in a normal fashion by the usual credit institutions. Consequently, when a case was submitted to the Association, inquiry was first made as to whether there was any possibility of one of the ordinary banks rendering the desired assistance. It was particularly the Netherlands Bank which in this respect always tried to come to an arrangement with the regular banks. It goes without saying that this likewise considerably assisted in bringing credit back into its normal channels as quickly as possible.

The Royal Decree of July 31, 1914,[18] which reduced from 40 to 20 per cent the compulsory metallic cover to be held by the Bank against its liabilities payable on demand, has remained in force ever since. The considerable increase in the operating power of the Netherlands Bank, in consequence of the halving of the compulsory metallic backing against its liabilities payable on demand, has stood the central credit institution in good stead. On the evening of August 1, 1914, the metallic cover had already fallen below 37 per cent. The increased power granted to the Bank in this manner was, however, used only during a very short space of time, and the metallic cover never fell below 32.59 per cent, a figure which was reached on October 16, 1914. After this date, the percentage gradually began to rise again; on December 12, 1914, the 40 per cent was again reached; and the proportion of the metallic cover has since constantly been substantially above this figure.

The gold embargo was abolished in April, 1925, when the gold standard was restored in the Netherlands. During the period here under review exemption from the export prohibition has repeatedly been granted on behalf of exports of gold by and for the account of the Netherlands Bank, a point to which we shall refer later.

The silver bonds have had a much longer life than was originally intended; in fact, they are still in circulation. As already stated, there was on August 22, 1914, a sum of 12.7 million guilders in silver bonds in circulation. For a few weeks this figure continued to increase until, on September 19, 1914, it reached the sum of almost

[18] *Staatsblad* No. 334.

18.7 million guilders. After this date, the circulation of silver bonds diminished, with the result that in the early months of 1916 there was a little less than 5 million guilders of these notes in circulation. This was partly due to the policy pursued by the Government, during these years, of having large amounts of new silver specie coined. Immediately on the outbreak of the crisis, coining had been commenced, and a total of about 30 million guilders of fresh silver had been struck during the period between August, 1914, and March, 1916, inclusive. By bringing this new silver specie into circulation, it was possible to reduce the total amount of silver bonds to 5 million guilders, but it seems that it was not possible to reduce this amount any further. The tendency of the public to hoard silver coin still proved to be so strong that a large portion of the newly coined cash disappeared as soon as it was put in circulation.

In the month of April, 1916, a strong demand again arose for the smaller means of payment owing to a rumor that there was a great risk of the Netherlands being involved in the War. This rendered it necessary to extend the circulation of silver bonds, so that the total amount in circulation in the autumn of 1916 again exceeded 15 million guilders. As the stock of silver specie available in the vaults of the Netherlands Bank at that time was little more than 6 million guilders, in spite of the fact that the Mint had in the meantime again delivered a sum of 5 million guilders in new guilders, there was in the autumn of 1916 not more than slightly over 15 million guilders in silver coin and bonds available as a reserve for the further issue of small circulating media, if the demand for these media should unexpectedly assume extraordinary proportions, a possibility which might easily occur in view of the extremely unsettled political situation.

Under these circumstances it was deemed desirable to permit the issue of silver bonds beyond the maximum of 25 million guilders, laid down in the Act of August 6, 1914; and this maximum was, therefore, raised to 40 million guilders by the Act of December 30, 1916.[19] In the meantime, however, the normal demand for smaller means of payment continued to increase, and the Government now gradually became convinced that one should no longer attempt to meet this situation by further coining of specie. Not only was a continual augmentation in the stock of silver coin in itself by no means

[19] *Staatsblad* No. 592.

without drawbacks with a view to the future, but it had now become quite clear that further coining would not serve the purpose sought, since it could safely be assumed that the greater part of the new specie which one might attempt to put into circulation would again be hoarded immediately. Consequently it was resolved, for the time being, not to coin more silver in quantities of any importance, but to meet the demand for means of payment of the denominations of 1 guilder and 2.50 guilders by issuing additional silver bonds.[20] In consequence, the circulation of silver bonds gradually increased during the year 1917 and the early months of 1918. At the end of April, 1918, it was, in round figures, 30 million guilders. In the meantime, the silver guilders and rijksdaalders began to be at a premium owing to the great rise in the price of silver,[21] with the result that these coins became scarcer and scarcer. This naturally increased the demand for silver bonds, so that it proved to be necessary to raise the maximum from 40 million guilders to 60 million guilders by an Act of July 25, 1918,[22] and even to 100 million guilders by an Act of December 7, 1918.[23] The augmentation in the circulation of the silver bonds ran practically parallel with these increases; on December 21, 1918, there was a sum of 69 million guilders in silver bonds in actual circulation.

In the year 1919, the situation assumed a somewhat different aspect. The War was over, and the silver which had been hoarded gradually started to flow back into circulation. This reduced the demand for paper guilders and rijksdaalders, with the result that the circulation of silver bonds again slowly diminished. On October 25, 1919, it was somewhat less than 39 million guilders, or more than 43 per cent less than it had been ten months previously. In the meantime, however, the constant rise in the price of silver had led the Government to prepare a bill providing for the reduction in the standard of silver coins from 945/1000 fine to 720/1000 fine.[24] In

[20] The silver bonds of 5 guilders which had been issued in August, 1914, had never been in great demand by the public and were, consequently, soon withdrawn.

[21] Although the Act of January 12, 1918, *Staatsblad* No. 14, had made it illegal to melt down silver coin, and the Government had fixed the maximum price of silver at 109.75 guilders per kg. fine in May of the same year.

[22] *Staatsblad* No. 476. [23] *Ibid.*, No. 782.

[24] This bill was passed and became the Act of November 27, 1919, *Staatsblad* No. 786.

connection with this bill, the Netherlands Bank was requested to retain for the time being all silver specie which it might receive and not to issue any silver from its own stocks. The result was that the circulation of silver bonds again began to increase after October, 1919, and by July, 1920, once more exceeded 50 million guilders, a level at which it was maintained for the remainder of the year. It was not until 1921 that, chiefly owing to the general depression in trade and business, the demand for silver bonds again became sensibly less. This decline was further accelerated by the sudden fall in the price of silver in the world market, which rendered it unnecessary for the silver guilders and rijksdaalders paid into the Netherlands Bank to be retained for recoining, so that the Bank in February, 1921, could once more resume the issue of silver coin. In fact, since this date, the volume of silver bonds in circulation has practically shown an uninterrupted fall until May, 1922, when it was not much more than 30 million guilders. The silver bond circulation has since been maintained practically at this level. On October 1, 1923, it stood at 28.5 million guilders. There is reason to believe that a considerable portion of this amount is held abroad and is, consequently, withdrawn from home circulation.

SECTION 2.

The abundance of money during the War and the granting of credit to foreign countries; the gold question.

The history of the Netherlands money market during the War is closely connected with the peculiar position which the Netherlands held financially as a neutral state in the midst of belligerent powers during the years from 1914 to 1918 inclusive. We shall attempt to indicate briefly in the following pages wherein the singularity of this situation lay. In order to do so we must first devote a few words to the conditions which prevailed in this field before the outbreak of the Great War.

The following table shows the extent of the foreign trade of the Netherlands during the years 1904 to 1913 inclusive:

FOREIGN TRADE OF THE NETHERLANDS, 1904-1913

(excluding gold and silver; values in millions of guilders)

Year	*Imports*	*Exports*	*Balance of imports*
1904	2,403	1,984	419
1905	2,566	1,990	576
1906	2,519	2,078	441
1907	2,659	2,199	460
1908	2,810	2,172	638
1909	3,108	2,449	659
1910	3,233	2,620	613
1911	3,316	2,713	603
1912	3,568	3,096	472
1913	3,903	3,065	838

Before the year 1917, the collection of the statistics relating to the foreign trade of the Netherlands was based on comparatively antiquated and defective methods. Consequently the figures cited above have only a relative value with regard to an accurate knowledge of the value of imports and exports, and they are given here with all reserve. We may, however, safely draw from them one conclusion, namely, that the Netherlands before the War invariably had an adverse balance of trade; in other words, that the value of her merchandise imports regularly exceeded the value of her merchandise exports. Against the balance, which the country consequently owed to foreign countries every year, there was, however, always a considerable sum in claims against foreign countries on other accounts. Long before 1914, the Netherlands had been classed among the lending countries, and in the course of years she had acquired a considerable holding in foreign securities. The total volume of these investments abroad, although they cannot accurately be known, could certainly be estimated at 3,000 million guilders immediately before the outbreak of the War.[25] The interest which the country received annually on these investments naturally formed an important item amongst the assets of its balance of payments. Further, the Netherlands received considerable sums every year from her investments in the Netherlands colonies (which investments were, before the War, estimated at a total of 1,000 million guilders) and from services her shipping rendered to foreign coun-

[25] Cf. *The Economist* (London), 1913, I, pp. 333, 637.

tries. All things considered, it may, therefore, safely be said that the claims which the country acquired every year against foreign countries and its own colonies by reason of its "invisible" exports more than outweighed the deficit in its "visible" trade balance and even, as a rule, showed a surplus by no means despicable, which was generally reinvested in new foreign (or colonial) securities.

Such, broadly speaking, was the position before 1914. To what extent did the War affect the situation? The answer is, briefly, that the conflict caused the Netherlands to become a creditor nation to an extent even greater than she already was. This requires some explanation.

On the outbreak of the World War, practically all belligerent countries experienced a heavy decrease in their exports of goods and a considerable increase in their imports. To a certain extent just the reverse took place in the Netherlands. The imports immediately dropped to a low figure, partly owing to the fact that the belligerent countries now required for their own use a large portion of the goods which they were accustomed to export in time of peace, and partly owing to the obstructions which the governments of the belligerent states imposed on imports into the Netherlands for fear that the goods sent there would be reëxported to the countries of their enemies. The factor last mentioned played a very important rôle during the entire War. In fact, it would in all probability have led ultimately to a complete cessation of imports into the Netherlands if the Netherlanders had not found means of surmounting the difficulties created by the belligerents by forming the Netherlands Overseas Trust Company, the so-called N.O.T. This institution, which was founded in November, 1914, and which owes its origin and success largely to the efforts of the late Mr. Joost van Vollenhoven, was a purely private organization in the form of a limited company. The principal banks and shipping companies of the country took part in its incorporation. Its object was originally defined in the statutes as "the granting of its intermediation in the widest sense of the word on behalf of Netherlands merchants and of Netherlands trading concerns in order to insure the uninterrupted importation from overseas of goods which the belligerent powers had declared or might still declare to be absolute or conditional contraband." Subsequently this definition was somewhat broadened so that, for instance, the Netherlands Overseas Trust could extend its serv-

ices to goods which were not contraband and to goods which were imported through the land frontiers. The activities of the N.O.T. were, in practice, that it furnished to the belligerent powers guarantees with regard to the destination of importations into the Netherlands. For this purpose it was required that the goods in question should be consigned to the N.O.T., after which, by means of a system of financial guarantees exacted by the N.O.T. from the Netherlands importers, and by means of an army of controllers, the N.O.T. saw that they were really used exclusively for home consumption. In this way objections which in many cases were made by the belligerent powers against importations into the Netherlands could be obviated, and it proved possible, at least to some extent, to keep the import trade going, although a considerable reduction in its volume was naturally inevitable.

In the meantime, however, the Netherlands was forced to continue to export, partly because a number of her products could not find a sufficient market within her own area and partly because export of goods was frequently the only condition on which foreign countries were prepared to supply the Netherlands with certain commodities which were most urgently needed for the maintenance of trade and which were not produced at all, or at any rate not in sufficient quantities, in the Netherlands, such as coal, iron, grain, and fertilizers.

Consequently the Netherlands' balance of trade showed radical changes during the War. The following table, taken from the Netherlands trade statistics, shows the foreign commerce of the country during the years from 1914 to 1918 inclusive:

FOREIGN TRADE OF THE NETHERLANDS, 1914-1918

(*excluding gold and silver; values in millions of guilders*)

Year	*Imports*	*Exports*	*Balance of imports*
1914	2,827	2,494	333
1915	1,875	1,739	136
1916	1,715	1,344	371
1917	965	819	146
1918	608	381	227

Owing to the defective method, already mentioned, in which these statistics were prepared before 1917, and in consequence of the fact

that, during the War, a number of commodities were omitted from the official export records in order that the feelings of the belligerent nations might not be disturbed, these figures unfortunately furnish a most inadequate picture of the changes in question. Further, the statistics for 1917 and 1918 cannot be compared with those of the previous years, since they were prepared according to a different system. Nevertheless this table clearly shows that the balance of imports which the Netherlands trade balance invariably exhibited before 1914 had been very considerably reduced during the War.

It goes without saying that the struggle did not remain without influence on other items of the Netherlands balance of payments. During the first few years of hostilities, considerable amounts in foreign securities (chiefly American shares) were disposed of abroad. In the end, this export necessarily reduced the revenue which the country drew from its foreign investments, but for the time being it created large claims on other countries. Netherlands shipping naturally diminished considerably during the War, but exorbitant freights were paid, so that the claims against foreign countries on this account were still considerable. All things taken into consideration, it may safely be said that the course of affairs during the War led to a very appreciable increase of foreign obligations *vis-à-vis* of the Netherlands.

The most obvious means by which, under the circumstances, foreign countries could meet these obligations was the shipment of gold. This method was, in fact, largely applied, as may be seen from the following table, which records the gold movements in the Netherlands during the War:

IMPORTS AND EXPORTS OF GOLD IN THE NETHERLANDS DURING 1914-1918

(values in millions of guilders)

Year	*Imports*	*Exports*	*Balance of imports*	*Balance of exports*
1914	52.4	8.	44.4	....
1915	228.5	5.	223.5	....
1916	163.5	1.4	162.1	....
1917	111.8	16.6	95.2	....
1918	19.1	31.7	....	12.6

These figures show that considerable quantities of gold were imported into the Netherlands from 1914 to 1917 inclusive. The net gold imports were particularly large in 1915 and 1916; and though a reaction set in during 1918, the net total increase in the gold stock in the Netherlands during the War was 512.6 million guilders.

The picture presented by the Netherlands money market in this period bears to a large extent the mark of the great influx of gold. There was a remarkable abundance of money in the Netherlands during the greater part of the years 1915-1918, which was reflected in the unusually low rate of interest on "prolongation" loans and in an abnormally low private discount rate.

The following tables indicate the average interest on "prolongation" loans and the average private discount rate at Amsterdam from 1915 to 1918 inclusive:

PROLONGATION LOAN RATE AT AMSTERDAM, 1915-1918*

(*averages*)

	1915	*1916*	*1917*	*1918*
January	6.	2.39	2.93	3.75
February	5.21	2.33	4.20	4.39
March	4.74	2.29	2.91	4.41
April	4.56	4.07	2.77	4.36
May	4.02	3.27	2.30	3.24
June	3.47	2.53	2.62	3.23
July	2.76	2.16	2.97	2.97
August	2.56	1.74	2.34	2.56
September	3.09	1.60	2.47	2.88
October	3.04	2.55	2.67	3.95
November	3.44	2.76	3.64	4.22
December	3.36	3.96	4.31	3.69
Whole year	3.85	2.64	3.04	3.64

* The figures are taken from the *Financieel Jaarboek*.

PRIVATE DISCOUNT RATE AT AMSTERDAM, 1915-1918*

(*averages*)

	1915	*1916*	*1917*	*1918*
January†	....	2.18	2.06	3.38
February†	....	1.60	2.16	3.11
March†	....	1.50	1.92	2.78
April	4.02	1.86	1.58	3.02
May	3.56	2.02	2.08	2.86
June	2.73	1.94	1.88	2.45
July	2.60	1.58	2.06	2.57
August	2.44	1.10	1.93	2.23
September	2.48	1.03	1.64	2.48
October	2.83	1.41	2.18	3.41
November	3.56	2.60	3.03	3.72
December	3.09	4.12	3.78	3.47
Whole year	3.03‡	1.91	2.19	2.96

* The figures are based on the daily returns as published in the *Annual Reports* of the Netherlands Bank (English edition).

† No figures available for 1915.

‡ Average for nine months.

If we compare these figures with those of the two years immediately preceding the outbreak of war, when the "prolongation" loan rate averaged 4.04 (1912) and 4.09 (1913), while the private discount rate averaged 3.91 (1912) and 4.27 (1913), it will clearly be seen that one could really speak of an easy money market in the Netherlands during the period from 1915 to 1918. A remarkable phenomenon in these tables is the very low figures for 1916 and the rise in the rates whenever the events of the War gave cause for anxiety (for instance, in April, 1916, and in the spring of 1918, when the public feared that the Netherlands might be drawn into the War; as well as in February, 1917, when the accentuated submarine war was declared).[26]

One should not, however, lose sight of the fact that this low rate

[26] The temporary rise in the rates in the spring of 1918 was also due to the failure of the firm of Erdmann and Hethey (April, 1918), which caused a considerable commotion at the time; the high rates for November, 1918, reflect the influence of political unrest caused by the manifestation of certain revolutionary tendencies in the Social Democratic Labor Party.

was, as a rule, only for short term credits; the rate for loans for longer periods, although it fell somewhat during the first years of the War, particularly in 1916, remained fairly constant at a considerably higher level than that for short term money. When, in fact, towards the end of 1914, the Netherlands Government wished to place a long term loan of 275 million guilders, they found themselves obliged to offer a rate of interest of 5 per cent. It was only in March, 1916, that a rate of 4½ per cent interest proved to be acceptable, and a little less than a year later (January, 1917) a 4 per cent government loan was issued. The price of issue of this loan had, however, to be fixed a few per cent below par (at 97 per cent); and it may be doubted whether it would have been fully subscribed if indirect but strong pressure had not been brought to bear on the public to induce them to participate in it by announcing that if it were not subscribed in full, a compulsory loan would be issued. At any rate, the quotation of this 4 per cent loan dropped a few per cent below the price of issue a few days afterwards. Early in 1918 the Government again had to borrow at 4½ per cent.[27] Provincial and municipal corporations who wished to contract loans likewise had to pay 5 per cent interest during the first period of the War. Later on, this rate dropped to 4½ per cent, and in the latter half of 1916 a number of provincial and municipal corporations tried the 4 per cent type of loan, though they also were obliged to fix the price of issue at a few points below par. During 1917 and 1918, the 4½ per cent interest type of loan was again fairly general for provincial and municipal corporations. It was only by way of exception that private concerns could borrow at less than 6 per cent during the first few years of the War; but they eventually came down to 5 per cent, and some even to 4½ per cent. All in all, it may safely be asserted that, throughout the War, the rate of interest for loans of a longer period remained constantly above 4 per cent.

In fact, this difference in the rate of interest for long or short term credits is easily explained: it was directly connected with the cause of the abundance of money itself. Owing to the fact that foreign countries supplied the Netherlands less and less, the supplies

[27] For further details on the government loans issued during this period, *see* M. J. van der Flier, *War Finances in the Netherlands up to 1918* (*Economic and Social History of the World War,* Netherlands Series, Oxford, 1923), Chapter IV.

of raw materials and finished products in the Netherlands were gradually being exhausted. The Netherlands merchants and manufacturers had received money in return for these stocks; but they were unable, except possibly to a very limited extent, to purchase fresh goods with these funds, so that they were obliged to find other means of making their resources productive as long as this state of affairs lasted. It is obvious that they could not invest these funds, which were to a large extent their working capital, in loans for a long period; they wished to invest them for only a short term and in a very liquid form so that, should the War suddenly come to an end, they would have them at their immediate disposal. This explains why the great supply of funds on the market for short term loans during this period could not, except at best to a small extent, be communicated to the market for money at longer periods.

We shall have occasion later on to point out some of the most important consequences of this plethora of money. In this chapter it is sufficient to have called attention to its existence and briefly to have shown its chief causes and its peculiar character.

We have seen from the table of imports and exports of gold during the years 1914-1918 that the net gold imports attained their greatest volume during the years 1915 and 1916. During 1917 the amount fell below 100 million guilders, and in 1918 a small balance was even exported. This was due to the fact that, the longer the War lasted, the less were belligerent countries inclined to pay in gold the amounts they owed to the Netherlands; they commenced more and more to urge that the goods should be supplied to them on credit. We now come to the second characteristic phase in the history of the Netherlands money market in the years of war, *i.e.*, the granting of credit to foreign countries.

We have already touched upon the imperative necessity for the Netherlands to maintain its exports, at least to a certain extent, during the War. Consequently, when foreign countries began increasingly to demand that goods should be supplied on credit, the Netherlands was more or less obliged to acquiesce. Moreover, the prevailing superabundance of money, and the consideration that this excess might be somewhat reduced by granting credits to other countries, also helped to give a fairly favorable reception to foreign proposals for the supply of goods on credit.

Thus it came about that, chiefly during the latter part of the War, the Netherlands granted credits on a large scale to foreign countries. As a rule this was done by the foreign buyers of the goods giving their suppliers in the Netherlands foreign bills or foreign treasury paper, usually backed by the special guarantees of foreign banks; and this paper was frequently taken over by Netherlands banks and bankers, sometimes in coöperation. The Netherlands banks also sometimes granted foreign buyers acceptance credits against which they could draw in guilders.

A large proportion of the credits thus granted found their focus in the Bank of Issue. Whenever the credit transactions were carried out with its cognizance and its coöperation, the Bank declared that it was prepared to accept the paper in question as security for advances, or to admit it into its portfolio. The Bank thus rendered credits possible in many cases in which the ordinary banks would not have been prepared to grant them without its coöperation. At the same time, in respect to foreign countries a high degree of uniformity was secured as to the terms on which credit was given. In fact, the Netherlands Bank in such cases adopted the definite rule that it would grant its assistance only in cases where a genuine Netherlands interest was involved in the transaction, and it was constantly on its guard to see that strict neutrality should be observed and that none of the belligerents should be privileged above the others.

The following table will give an idea of the volume of credit granted to other countries; it shows the foreign credits outstanding at the time of the armistice and sanctioned by the Netherlands Bank, and the various countries to which they were given.[28]

[28] This table is compiled from figures in the possession of the Netherlands Bank.

CREDITS GRANTED BY NETHERLANDS LENDERS TO FOREIGN COUNTRIES AND OUTSTANDING AT THE TIME OF THE ARMISTICE

(This table includes only those credits which were sanctioned by the Netherlands Bank)

Countries	*Amount (in guilders)*
Germany	197,081,000
England	140,928,000
Austria-Hungary	85,100,000
France	18,500,000
United States	14,500,000
Belgium	9,000,000
Luxemburg	7,400,000
Italy	800,000
Total	473,309,000

In order to obtain a complete survey of the amount of credit given to foreign countries, these figures would have to be augmented by the sums granted without the cognizance and assistance of the Netherlands Bank. Unfortunately no statistics of such credits are available; but, taken as a whole, they were of only minor importance.[29]

In connection with the importation of gold into the Netherlands during the War and the granting of credits to foreign countries, a

[29] The advances and credits granted to foreign Powers during and after the War by the Netherlands Government are not included in this review. At the end of 1922 the total of these advances and credits was upwards of 200 million guilders, divided as follows:

	(in guilders)
a. Advances to various States for cost of maintenance of interned soldiers and refugees, etc.	75,000,000
b. The so-called clothing credits to Poland	11,500,000
c. Credits to France (reconstruction)	53,000,000
d. Raw material credits to Germany	43,000,000
e. Relief credits to Austria, Poland, Rumania, Serbia, Czechoslovakia, and Hungary	17,500,000
Total	200,000,000

See the figures in the weekly *Economisch-Statistische Berichten* of May 23, 1923, pp. 468, 469.

few words must be said about one or two controversies which arose at the time with regard to this influx. Was the unusual increase in the stock of gold, owing to such importation, really in the country's interest, and should the Netherlands passively submit to it? In certain quarters these questions were at the time most vehemently answered in the negative. Those who adopted this standpoint brought forward two main arguments in defense of their views. They contended that the steadily growing imports of gold would necessarily lead to the depreciation of the currency. They also urged that it was much more in the country's interest to have its foreign debtors pay their debts in the form of merchandise, of which the Netherlands felt a daily increasing shortage as the War progressed; and in this connection they reproached the Bank of Issue with continuing to accept gold at the same price as before the War. They considered that the Bank should break with this policy and, following the example of the Swedish Riksbank and of the banks of issue in certain other neutral countries, that it should adopt measures to put a stop to the influx of gold,[30] especially as, in their opinion, this metal itself was already losing a considerable part of its pre-war value.

The Netherlands Bank was not able to share this opinion. It naturally did not deny that, from an economic standpoint, it would have been more advantageous for the Netherlands if its foreign debtors had paid more in the form of goods and had shipped less gold to the Netherlands. Neither did the Bank dispute the fact that the accumulation of gold constituted a danger of inflation, although it considered that this peril was far too greatly exaggerated by the opponents of its policy.[31] The position was, however, such that the

[30] *Cf.* on the gold policy of Sweden *The Economist* (London), 1916, I, pp. 407, 452.

[31] Generally speaking, those who did not in this respect agree with the policy of the Netherlands Bank looked too exclusively at the drawbacks of the increase in the stock of gold, although this augmentation undoubtedly had its advantages. Even the most violent antagonist of the policy of the Netherlands Bank must now admit that the large stock of gold has remarkably increased the importance of the Netherlands as a financial center, and it cannot be denied that the remarkable development which, for instance, the acceptance business has shown in Holland during and since the War (a subject to which we shall refer later) has been largely due to the growth in the stock of gold.

foreign debtors were not prepared to pay in goods, except at best to a very small extent, and when they were ready to do so, the export of the commodities was frequently prevented by the military authorities in the foreign country, while the Netherlands Bank possessed no power to exercise pressure in this respect. If the Bank had refused to accept gold at the pre-war price, the result would simply have been that, in a number of cases, the export transactions would have been impossible. The Bank naturally did not wish to assume the responsibility of doing this in view of the great importance for the Netherlands of maintaining, at least to some extent, the export of merchandise. There was also another side to the question. By proclaiming, as was done in Sweden, and in certain other neutral states which followed Sweden's example, that the Netherlands Bank would not accept gold in payment, or that it would accept it only at a discount, the Bank would practically have announced that it considered gold to have depreciated as compared with the currency of the country. Now the Bank by no means disputed the fact that gold —at least in the latter years of the War—had lost a portion of its purchasing power with regard to goods; but the Bank denied that it had diminished in value as compared with money. Moreover it believed that such a policy as was pursued by the Swedish Riksbank would necessarily result in great injury to the usefulness of gold as an international medium of payment, a state of things which the Bank considered most undesirable and towards which it was not prepared to coöperate.

Consequently the Bank of Issue was of opinion that it should continue to be prepared to accept gold at the pre-war price. The only restriction the Bank made was that it required reasonable evidence to be produced that purely Netherlandish interests were involved in the gold shipment. If this could not be proved satisfactorily, the gold was refused, since the Bank did not wish to become the tool of foreign interests.

As already stated, the Netherlands Bank was by no means blind to the risk of inflation which might lie in the growing stock of gold. In fact, it was partly with the object of removing this danger as much as possible that, particularly in the latter years of the War, the Bank assisted largely in arriving at arrangements which enabled foreign countries to purchase goods in the Netherlands against credits. As early as the autumn of 1916, the Bank had recommended

that the Government establish a semiofficial organization in which such commerce could be centralized. The object of this plan was to strengthen the position of the export trade *vis-à-vis* of foreign countries so as to be able to exert a more effective pressure on them to obtain payment in kind than had been the case hitherto; and it was also hoped that the projected institution would become the center for the issue of credits abroad. This proposal at first met with such serious opposition that the Government did not consider it wise to entertain the matter further. The idea was taken up again only after February, 1917, when the volume of credits granted to foreign countries had assumed far greater proportions, and when the difficulties which were naturally connected with such credits—all of which had been foreseen by the Netherlands Bank and which it had emphatically warned the country to expect in the near future—really began to be seriously felt. It eventually led to the proclamation of the Act of September 1, 1917,[32] which incorporated the *Nederlandsche Uitvoer Maatschappij* (the Netherlands Export Company), the N.U.M. Owing to various circumstances, this institution was not able to commence its activities before the early part of 1918; and when it actually was established, it soon proved that the time to attain its object had already passed. Consequently the N.U.M. was more or less of a disappointment, and very shortly after its foundation its task was restricted to purely administrative duties.[33]

[32] *Staatsblad* No. 576.

[33] *Cf.* on the "gold question," which for reasons of space can here be touched upon only very briefly: G. Vissering, *The Netherlands Bank and the War,* II, in the *Grotius Annuary* (The Hague, 1916); *Het vraagstuk van de geldruimte in Nederland en de goudpolitiek van de Nederlandsche Bank* (Rotterdam, 1917); *The Netherlands Bank and the War,* in the (British) *Economic Journal* of June, 1917; *Het goudvraagstuk* (The Hague, 1918); *De goudquaestie* (The Hague, 1918); and *Opmerkingen over het duurtevraagstuk* (The Hague, 1919). *See,* further, C. A. Verrijn Stuart, *De toekomst van het goud* (Haarlem, 1917), and *De goudkwestie* (Haarlem, 1918). The events leading to the establishment of the N.U.M. will be found in greater detail in *De goudquaestie,* pp. 36 *et seq.*

SECTION 3.

The international financial position of the Netherlands after the War; stringency of capital; relative abundance of short-term money and its causes.

In the foregoing pages we have seen that the War had caused the Netherlands to become the creditor of foreign countries to an extent even greater than had previously been the case. After the armistice, a totally different state of affairs set in. The imports of goods greatly increased, and although the exports also grew in volume, the rate of gain of the latter was so much slower than that of the former that the result was a constantly growing adverse balance of trade.

In order to illustrate this clearly, we shall give a few figures showing the *quantities* of the goods imported into and exported from the Netherlands during this period; and for the sake of comparison the figures for 1917 and 1918 are included in the table:

FOREIGN TRADE OF THE NETHERLANDS, 1917-1922

(without gold and silver; weight in millions of kilos)

Year	*Imports*	*Exports*	*Balance of imports*
1917	7,472	3,322	4,150
1918	4,849	1,988	2,861
1919	10,848	2,728	8,120
1920	13,818	4,215	9,603
1921	17,218	5,715	11,503
1922	19,468	6,908	12,560

This table shows that the imports increased without interruption during the years from 1919 to 1922, and ultimately were more than quadrupled. The exports increased similarly, and in 1922 were almost three and a half times as great as in 1918. The balance of imports also steadily increased, and in 1922 was nearly 4.4 times as great as in 1918.

The figures indicating the value of the imports and exports during the years 1917-1922 point in the same direction, as will be seen from the following table:

FOREIGN TRADE OF THE NETHERLANDS, 1917-1922

(without gold and silver; value in millions of guilders)

Year	*Imports*	*Exports*	*Balance of imports*
1917	965	819	146
1918	608	381	227
1919	2,826	1,411	1,415
1920	3,336	1,701	1,635
1921	2,240	1,370	870
1922	2,027	1,221	806

The movement of the foreign trade of the Netherlands shown by the second of these tables is more or less obscured by the great changes which took place in the value of money during this period. Owing to the violent fall in prices which commenced in the latter half of 1920, it would seem as if, after that year, both imports and exports had greatly diminished, whereas in reality there was a considerable increase, as is evident from the first table given above. Nevertheless these value-statistics equally show the relatively high degree to which the balance of trade was unfavorable to the Netherlands during the years immediately following the armistice.

Taken by itself this fact is by no means remarkable. In the previous pages we have seen that it was quite normal for the yearly figures of the foreign trade of the Netherlands before the War to show a considerable balance of imports. Probably this balance was (at any rate if we take into account the changes in the value of money) even greater in 1913 than during the years here under review.[34] In those days, however, the adverse balance was always

[34] Seeing that, as already stated, the Netherlands trade records before 1917 contained errors of considerable importance and the figures since that year have been prepared on a different basis, a comparison between the statistics of the two tables given above with those of the pre-war period is of very little use. In view of their importance, one or two pre-war figures may, however, be mentioned here. According to the official records, the imports into the Netherlands during 1913 amounted in round figures to 60,000,000,000 kgs. the exports to 45,000,000,000 kgs. It is generally admitted that these numbers are too high. Taking into consideration errors which must have been made owing to the manner in which the statistics were compiled before 1917, it can, however, be estimated by what quantity they must be reduced in order to represent approximately the real state of affairs. The former Minister of Finance, Dr. M. W. F. Treub, has given such a calculation in an article published by him under the title of *Pryzen en Handels-*

largely offset by the claims the Netherlands obtained on foreign countries by reason of her "invisible" exports; and, as a rule, these were so considerable as to leave a surplus which was by no means insignificant, and which was thus available for investment abroad or in the colonies. During the period now under consideration, the position was, however, entirely different.

In the first place, the amount that the Netherlands annually received from her foreign investments had considerably diminished in consequence of the War. We have seen that the aggregate of such investments before 1914 could be estimated at about 3,000 million guilders. A considerable portion of these securities consisted of Russian government bonds which, since the Russian revolution, have ceased to pay interest and are practically valueless. It was ascertained a few years ago, by an inquiry instituted on the initiative of the Netherlands Bank, that the Netherlands holdings of these securities totaled more than 1,000 million guilders.[35] Further, the Netherlands suffered considerable losses from her fairly large holdings of Austrian securities, which also have ceased to pay interest; and, finally, the amount of the American securities held in the Netherlands was much reduced by the sales already alluded to during the first years of hostilities.[36] On the whole, it would not be too much to say that, in consequence of the War, the revenue which the Netherlands obtains from foreign investments has been reduced to half.[37] In the years immediately following the termination of hostili-

balans in the monthly *Vragen des Tyds* of December, 1920, pp. 153 sqq. He there comes to the conclusion that the actual weight of the imports in 1913 can be put at 50,000,000,000 kgs. and that of the exports at 35,000,000,000 kgs. If these figures are correct, the adverse balance of trade in 1913 would have been, according to weight, 15,000,000,000 kgs., or almost 2,500,000,000 kgs. more than in 1922. It is remarkable to observe how the foreign trade of the Netherlands has suffered owing to the War. If Dr. Treub's calculations are exact, the imports into the Netherlands during 1922 were, according to their weight, less than 40 per cent, and the exports even less than 20 per cent of pre-war years.

[35] The Netherlands also had large claims on other accounts outstanding in Russia at the outbreak of the Russian revolution. The total of these claims must have amounted to about 250 million guilders.

[36] *Supra,* p. 23.

[37] One must also take into account the fact that in 1920 considerable amounts of American securities were again exported; subsequently, however, these securities were partly repurchased by the Netherlands.

ties the amount of income from this source was, as a rule, estimated at about 100 million guilders annually. It is needless to say that this was of little use as an offset against the adverse trade balance, particularly during the years 1919 and 1920, when, owing to the comparatively low value of money, this amounted to 1,400 million guilders and 1,600 million guilders respectively.

Even this would not in itself necessarily have been alarming if, against the shrinkage of income from foreign investments, a proportionate increase had been obtained in the revenue from colonial investments and shipping. Unfortunately, however, such was not the case. It is well known that the year 1919 and the first half of 1920 were characterized, practically all over the world, by an extraordinary business activity. Considerable profits were made in these years in the Netherlands East Indies, and the sums which the Netherlands derived from its colonial possessions during this period can probably be estimated as between 300 million guilders and 400 million guilders. The two succeeding years, however, showed a great decline in the revenue from these sources. An estimate of 150 million guilders for 1921, and of 100 million guilders for 1922 would in all probability be the highest possible. Finally, the amount of revenue to be included in the assets of the balance of payments and derived from Netherlands shipping may probably be set at between 400 million guilders and 500 million guilders per annum for the years 1919 and 1920. Owing to the violent drop in freights, which began towards the end of 1920, and to the fact that a large portion of the mercantile marine was laid up for lack of cargoes, the revenue derived from shipping during 1921 and 1922 can certainly not have amounted to more than from 150 million guilders to 200 million guilders per annum.

It is obvious that these figures cannot be more than rough guesses. It is impossible to obtain detailed and accurate statistics of the "invisible" exports of a country; and, moreover, to complete the picture, a number of minor items would have to be taken into account, such as tourist expenditure, transit freight, commission, etc., which are naturally even more difficult to estimate. On the whole, however, these figures may, in our opinion, be deemed sufficiently reliable to give a general view of the subject under consideration. They clearly show that the Netherlands must constantly have had, during the years 1919-1922, an adverse balance of payments of

considerable importance, even if we were to estimate 100 million guilders on the credit side for the minor items just referred to so as not to exaggerate the situation. The conclusion to be drawn from this fact is obvious: unless sales of foreign securities (by the Netherlands) can be shown against these balances—and it may be assumed that such sales were not of great importance during these years[38]—foreign countries must have lent the Netherlands large sums in one form or another throughout this period.[39]

A condition had thus arisen which was exactly the opposite to what could be considered normal before the War. Instead of a lending country the Netherlands had become (although probably only for a short time) a borrower. To anyone wishing to form an idea of the economic and financial position of the Netherlands during the first few years after the armistice, this fact is of considerable importance. It points to a phenomenon which is highly characteristic of that situation: while the Netherlands, during the years preceding 1914, enjoyed a relative abundance of capital which enabled her to lend to foreign countries fairly regularly, the period from 1919 to 1922 was characterized by a relative but distinct stringency.

It would take us too far from our subject to trace the origin of this scarcity in detail. It was probably due both to a reduction in the supply of capital and (in even greater degree) to an increase in the demand for it. The diminished supply may partly be attributed to too high a standard of living on the part of certain groups of the population, but it may also be largely laid at the door of the enormous increase in the expenditure of the State and other public bodies which took place during these years, and which led to such a

[38] See *supra,* p. 35, note 37.

[39] It may be mentioned here that the Netherlands balance of payments for 1923 distinctly shows a more favorable position. The adverse balance of trade for that year amounted to 706 million guilders, while the revenue from colonial investment had greatly increased. The total income derived from the colonies in 1923 has been estimated at 300 million guilders. In addition to the article by Dr. Treub already mentioned, the reader is referred, for further details on the subject of the Netherlands balance of payments, to the essay of the same author, *Crisis en Handelsbalans* in *Vragen des Tyds* of April, 1922, and to the articles by Dr. H. F. van Leeuwen in the weekly *In- en Uitvoer,* of December 8, 1920; January 4, 1922; January 31, 1923; and January 9, 1924.

rise in taxation that there was only a small margin left for savings, if any.

The increased demand for capital came in the first place from the State and from the municipal and provincial corporations. In fact, the expenditure of these bodies reached such a height in these years that, in spite of the greatly augmented taxes, it was impossible to meet the outlay from the ordinary revenue, and loans for long periods had repeatedly to be issued.

The following table shows the capital issues of the State and of the municipal and provincial corporations in the Netherlands during the years 1919-1922.

CAPITAL ISSUES OF THE GOVERNMENT AND OF PROVINCIAL AND MUNICIPAL CORPORATIONS DURING THE YEARS 1919-1922*

(in thousands of guilders)

Year	*Amount*	
1919, 1st half year	413,534	651,760
2nd half year	238,226	
1920, 1st half year	485,022	573,998
2nd half year	88,976	
1921, 1st half year	69,796	235,072
2nd half year	165,276	
1922, 1st half year	99,041	213,656
2nd half year	114,615	
Total	1,674,486	

* The figures are taken from *In- en Uitvoer,* December 31, 1919, and February 7, 1923.

If we add that the issues of capital by the same bodies during 1913 and 1914 amounted to less than 70 million guilders, the reader will realize the enormous calls which the State and other bodies made on the money market in the few years after the armistice.

It did not stop there, however. Industry and trade also levied a considerable demand on the money market during this period. What was, in fact, the position? When the armistice had been signed, the same phenomenon took place in the Netherlands as in most other European countries and particularly in the United States. After a few months of uncertainty, trade and industry began to revive in

the course of 1919, and an unprecedented boom period commenced. New concerns were established; many old companies increased their capital; and a flood of fresh issues was the result.

The following table shows the totals of capital issues by private concerns in the Netherlands during the years 1919-1922. For the sake of comparison with the pre-war position, it may be noted that the total capital issues by private concerns during 1913 did not quite reach 150.3 million guilders.

CAPITAL ISSUES BY PRIVATE CONCERNS, 1919-1922*

(*in thousands of guilders*)

Year	*Amount*	
1919, 1st half year	98,958	524,601
2nd half year	425,643	
1920, 1st half year	298,286	577,388
2nd half year	279,102	
1921, 1st half year	157,459	215,717
2nd half year	58,258	
1922, 1st half year	72,294	88,526
2nd half year	16,232	
Total	1,406,232	

* The figures are taken from the weekly *In- en Uitvoer,* December 31, 1919, and February 7, 1923.

It is obvious that this state of affairs could not fail to affect the rate of interest for long term loans. During the first half of the period under review, when the demand for capital on the part of public bodies and of trade and industry had reached its apogee, we see that the rate mounted considerably. Consequently the Government, which had still been able to secure money at 4½ per cent in the early part of 1918,[40] had, as early as January, 1919, to pay 5 per cent. When the Government of the Netherlands East Indies, which had been able to borrow for long periods at 5 per cent during the War, wished to issue a fresh loan in July, 1919, they were obliged to offer a rate of 6 per cent, and in July, 1921, they even had to pay 7 per cent. For loans on behalf of provincial and municipal corporations 5 per cent interest was the rule during the first few months of 1919. In April and May of that year, corporations and

[40] *See* p. 26.

provinces found themselves obliged to pay 5½ per cent for long term loans, and in the autumn of 1919 this figure proved insufficient, so that the rate of 6 per cent became general. During 1920 this gradually increased, and in the latter part of the year the interest for municipal loans was, as a rule, 7 per cent. Even at this rate it was frequently difficult for corporations to obtain money, the situation being complicated by the fact that for some time the public showed very little inclination to invest in municipal loans since a number of municipal corporations were financially administered in a way which was open to criticism.[41] During 1919 private concerns had, as a rule, to pay from 5 to 6 per cent interest for long term loans; and in the latter half of 1920 this rate rose to 7 per cent or, in certain cases, even to 8 per cent.

During 1921, when capital issues showed a considerable decline, this upward movement in the rate of interest ceased, and a slight reaction set in. This was, however, by no means proportionate to the previous rise; the rate of interest for long term loans remained at a comparatively high level, and the constantly prevailing dearth of capital was clearly seen in the difficulties experienced when attempts were made to place such loans. In October, 1921, for instance, the Government of the Netherlands East Indies sought to issue a loan of 100 million guilders at 6½ per cent interest; but in spite of the fact that the price of issue was fixed at 99 per cent, only 56 million guilders were subscribed. When, a few months later, the Government of the Netherlands East Indies again required funds, the Minister of Colonies had to be authorized by an Act of December 30, 1921,[42] to make a dollar loan in the United States amounting to $100,000,000; and this was done in three portions of $40,000,000, $40,000,000, and $20,000,000, respectively, which were successfully issued at New York in January, March, and April, 1922. The objections against the issue of a government loan in a foreign currency were naturally very obvious and were fully realized in the Netherlands, but circumstances left no other choice. In 1922

[41] The custom of obtaining funds by the issue of promissory notes or by means of so-called anticipation bills which the municipal corporations adopted more and more during the War, as well as the rationing measures taken by the Netherlands Bank in this respect will be discussed in the next chapter (*see* pp. 70, 71, *infra*).

[42] *Staatsblad* No. 1455.

(March and July) the Netherlands Government floated two 6 per cent loans of 150 million guilders each. Although their price of issue was fixed at 96 and 98 per cent, respectively, the Government considered it advisable, in order to ensure success, to place half of the first and about a third of the second of these two (guilder) loans in the United States of America. In the course of 1921, the rate of interest for provincial and municipal loans dropped to 6½ per cent; but in spite of this, the municipal corporations at first still experienced great difficulty in securing funds. It was not until the year 1922 that improvement began in this respect, or that the rate of interest for provincial and municipal loans gradually dropped to 6 per cent, and in certain cases, during the latter months of the year, to 5½ per cent. Private concerns found it very hard to borrow at all, for longer periods, during 1921 and 1922. If they succeeded, they had to pay, until the latter half of 1922, more than 6 per cent.

The fluctuations in the rate of interest for short money during the period 1919-1922 are in striking contrast with the movements in the rate of interest for long term loans as briefly described above. The following tables show the average rate for "prolongation" loans and the average private discount rate at Amsterdam for the years 1919-1922 inclusive.

PROLONGATION LOAN RATE AT AMSTERDAM, 1919-1922*

(*averages*)

	1919	*1920*	*1921*	*1922*
January	3.28	3.75	3.44	3.51
February	3.88	3.56	3.48	3.78
March	4.06	3.87	4.47	4.26
April	4.13	4.60	4.01	4.35
May	3.41	5.56	3.80	3.73
June	3.23	4.55	2.94	3.33
July	3.71	5.28	2.99	2.44
August	4.56	3.99	3.45	2.35
September	3.97	4.15	3.37	2.92
October	4.65	4.16	3.32	3.89
November	4.36	4.15	3.62	3.79
December	4.51	4.83	3.98	3.79
Whole year	3.98	4.37	3.57	3.51

* The figures are taken from the *Financieel Jaarboek*.

PRIVATE DISCOUNT RATE AT AMSTERDAM, 1919-1922*

(*averages*)

	1919	*1920*	*1921*	*1922*
January	3.31	3.93	3.59	4.34
February	3.66	3.80	3.75	4.25
March	3.62	3.75	4.33	4.32
April	4.14	3.59	4.41	4.34
May	3.89	3.57	4.42	4.25
June	3.57	3.41	4.31	3.70
July	3.81	3.25	4.29	2.83
August	3.93	3.08	4.35	2.75
September	3.63	3.90	4.36	3.24
October	3.94	4.22	4.37	3.81
November	4.01	4.00	4.37	3.83
December	4.18	3.97	4.38	3.85
Whole year	3.81	3.70	4.24	3.79

* The figures are based on the daily private discount rates as published in the *Annual Reports* of the Netherlands Bank (English edition).

A glance at these two tables is sufficient to show that the rate for short term money was constantly lower, and generally much lower, during this period than the standard for long term loans. We thus see precisely the same phenomenon here as was observed during the War, although, as we shall presently point out, its explanation is now entirely different. On closer examination of these figures, it will immediately be observed that it was only during the latter half of 1919 and throughout the year 1920 that the short term market showed for any length of time a tendency to a higher rate of interest. During the years 1921 and 1922, short term money was always abundant. The "prolongation" loan rate during 1921 averaged 3.57, which is even a fraction lower than in 1918, when it amounted to 3.64. The year 1922 showed a still lower average at 3.51.

We need not look far for the explanation of this state of affairs. It lies partly in the trade fluctuations which took place in the Netherlands during the years under review, and partly—certainly to no less extent—in the remarkable influx of foreign balances which characterized the Amsterdam money market in this period. A few words on each of these two points may conclude our chapter.

We have already referred to the boom in trade and industry which

occurred in the Netherlands as in many other countries on the conclusion of peace. It is now common knowledge that this boom period was very short-lived. In the course of 1920 it gave way, in the Netherlands as elsewhere, to a general depression in trade and industry, and this continued (in contrast, for instance, with what took place in the United States) until the end of 1923, when the first dawn of a revival was observed, at least as far as this can now be judged.

In order to give a somewhat clearer picture of these trade fluctuations in the period under consideration, as they took place in the Netherlands, we here append a table showing the movements of the index-number of wholesale prices in the Netherlands as calculated and published monthly by the *Centraal Bureau voor de Statistiek* (Central Bureau for Statistics) during the last few years.

INDEX-NUMBER OF WHOLESALE PRICES IN THE NETHERLANDS (1913 = 100)*

	1920	*1921*	*1922*	*1923*
January	284	213	163	157
February	280	197	165	155
March	282	188	164	156
April	289	176	163	156
May	292	182	165	149
June	293	182	165	149
July	296	176	164	145
August	288	180	156	142
September	287	180	152	145
October	283	169	155	148
November	260	165	158	153
December	233	165	155	...

* The figures are taken from the monthly *Pryzen en kosten van levensonderhoud,* published by the *Centraal Bureau voor de Statistiek.* From January, 1922, the figures are based on the prices of forty-eight commodities; before this date on the prices of fifty-three.

As this table does not go further back than 1920 (monthly index-numbers of wholesale prices in the Netherlands during 1919 and previous years are, unfortunately, not available), the commencement of the boom is not reflected in the index-numbers. The rise in the figures during the first half of 1920 reflects the end of the boom

period, and the fall in prices which set in during the month of August, 1920, marks its termination. The American reader will observe that this decline set in two months later in the Netherlands than in the United States. The practically uninterrupted fall in the index-number after August, 1920, is most remarkable. Contrary to what was observed at that time in the United States, the fall in prices did not stop in 1922, and it was not until the end of 1923 that its further decline was arrested.

These trade fluctuations, the boom of 1919 and 1920, and the subsequent depression were largely responsible for the movements exhibited by the short term loan rates during these years. The increased activity in trade and industry naturally augmented the demand for short term credit, with the result that both prolongation and private discount rates showed a distinct tendency to rise during the latter half of 1919 and the greater part of 1920. On the other hand, in 1921 and 1922 the constantly growing depression in trade and industry caused the demand for short credit to dwindle gradually, so that during these years the market for short term money became on the whole much easier.

If, therefore, we can, on the whole, satisfactorily explain the movement of the rate for short credits during this period by means of variations in the trade position, these fluctuations cannot, except at most very partially, be held responsible for the low level at which this rate continually moved in these years as compared with the rate for loans for longer periods. This low level is chiefly to be attributed to the second of the two causes above mentioned, namely, the influx of foreign balances.

This affluence was the immediate result of the deplorable condition of the currencies of various countries in central and eastern Europe, particularly Germany. The terrific depreciation in the value of monetary units which took place in those areas during the years under review led to an unparalleled shifting in the distribution of income. Retired persons who were obliged to live on money derived from a fixed interest, government officials, and all others whose increase in salary did not keep pace with the depreciation in the value of the currency saw their real income shrink daily; and the profits went in the first place to those whose wealth was immediately due to the results of trade and industry, more particularly of the export industry. A very considerable portion of the profits thus

acquired was naturally obtained in the form of balances abroad, and the parties who were thus earning soon took to leaving these balances as much as possible in foreign countries, partly for fear of further deterioration of their own currency, and partly in order to avoid the payment of taxes, which were frequently very high. The same considerations also induced many to transfer a larger or smaller portion of their capital invested in home securities to foreign countries, an operation which was facilitated to no slight extent by the willingness with which the depreciated currencies were only too frequently absorbed by speculators abroad. The balances thus formed accumulated in the few countries, including the Netherlands, whose monetary units had remained relatively stable. Moreover, if and as far as the owners of these funds sought investment, they naturally did so on the market for short money, with the result that the supply of short term money on the Netherlands market increased to such an extent during this period as would scarcely have been held possible before the War. Naturally, no exact figures are available to show the entire amount of funds thus dumped into the market; but we may safely consider that the figure of 500 million guilders, at which the total of the foreign balances outstanding in the Netherlands was estimated towards the end of 1921, was on the conservative side.[43]

In this way the relative superabundance of money which constantly prevailed on the short term market in the Netherlands during the years under review is very easily explained. One may even, at first sight, be astonished that this unprecedented increase in the supply of short money has not forced the rate even farther down, particularly during the slump, than it actually did. That this was not the case was due only to the enormous calls which the Government made on the short term money market in this period. We append a return showing the amounts of Treasury paper outstanding in the open market on certain dates during the years 1919-1922.

[43] *See* the article of Professor G. W. J. Bruins, *Staatsleeningen in Amerika,* in the weekly *Economisch-Statistische Berichten* of December 21, 1921.

TREASURY PAPER OUTSTANDING IN THE OPEN MARKET*

(in millions of guilders)

Date	*Amount*
January 4, 1919	350
April 5, 1919	368
July 5, 1919	460
October 4, 1919	425
January 3, 1920	474
April 3, 1920	560
July 5, 1920	298
October 4, 1920	353
January 3, 1921	382
April 4, 1921	464
July 4, 1921	626
October 3, 1921	595
January 2, 1922	688
April 3, 1922	659
July 3, 1922	613
October 2, 1922	590
December 27, 1922	620

* The figures are obtained by deducting the amount of Treasury paper placed at the Netherlands Bank from the total of Treasury paper outstanding. *See* the statistics given in *Jaarcijfers voor het Koninkryk der Nederlanden* (*Ryk in Europa*), 1921, p. 291.

In order to show clearly the abnormal character of these figures, particularly in so far as they relate to the years 1921 and 1922, it will be sufficient to state that, for instance, on July 18, 1914, when the cash position of the Government could by no means be termed very favorable, the amount of Treasury paper outstanding in the open market did not quite reach the sum of 35 million guilders, and that before the War a total of 50 million guilders in Treasury paper was usually considered too heavy for the market. If this is kept in mind, one need no longer be surprised that the rate of interest did not drop during the years of depression even further than it actually did. At the same time it is obvious that this large floating debt of the Government must be considered very objectionable from the point of view of public finance; but we cannot enter into this matter any further here.

CHAPTER II

THE BANKS

SECTION 1.

The Netherlands Bank, 1914-1922.

In the foregoing chapter we have depicted in broad outlines the history of the Netherlands money market during the years 1914-1922. We will now attempt to describe the activities and development of Netherlands banking in the same period. For this purpose it is desirable to divide our subject into two parts: we shall first discuss the Bank of Issue and then the other large banking institutions in the Netherlands.

In so doing we must devote a moment's attention to what are termed the actual operations of the Netherlands Bank. They consist in the discounting of bills and other paper, the granting of advances on securities and goods, and the purchase and sale of foreign bills. The following table shows the volume of the so-called "operating capital," in other words, of the total of all discounts and all advances of the Netherlands Bank, including the foreign bill portfolio, during the years 1914-1922. For the sake of comparison with the pre-war period, it may be added that the average operating capital of the Bank amounted to 173 million guilders during the

OPERATING CAPITAL OF THE NETHERLANDS BANK, 1914-1922

(*monthly averages in millions of guilders*)

Month	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
January	183.4	301.1	181.0	172.0	189.6	399.0	476.5	503.4	445.7
February	163.0	303.3	167.2	172.1	177.4	343.9	482.8	449.8	382.3
March	160.5	285.1	156.4	178.5	143.1	326.4	469.7	448.1	400.7
April	173.6	251.9	185.9	186.5	176.6	365.7	483.7	464.5	412.1
May	179.1	232.5	142.2	186.1	212.2	394.4	549.1	497.2	438.6
June	160.8	209.5	130.3	154.5	175.0	350.8	496.3	436.0	395.8
July	172.9	183.6	125.7	141.4	179.7	349.7	461.7	460.5	415.5
August	327.1	170.8	157.4	131.9	187.3	369.5	445.9	434.4	383.8
September	326.2	165.0	186.4	161.3	226.0	383.5	448.6	424.7	382.1
October	333.3	175.9	175.9	166.5	264.7	412.2	481.6	457.6	410.0
November	330.2	183.6	159.7	184.8	356.2	452.8	481.5	465.1	424.1
December	303.1	179.0	148.2	177.0	385.3	469.9	497.0	449.2	418.8

fiscal year 1913-1914, and to 160 million guilders in the five fiscal years taken together immediately preceding the world conflict.[1]

A glance at these figures suffices to show that the amount of the operating capital of the Netherlands Bank had been subject to considerable fluctuations during and after the War. In the months immediately preceding the outbreak of hostilities, the average operating capital of the Bank varies, with comparatively slight oscillations, between 160 million guilders and 180 million guilders. In the month of August, 1914, this figure is, at one stroke, practically doubled. During the next four months it remains more or less at the same level, a height hitherto unprecedented. In December, 1914, however, a fall sets in which continues almost uninterruptedly until the summer of 1916, when the monthly average of the operating capital reaches the minimum of 125.7 million guilders, a figure lower than had been seen for many years.[2] An upward movement then begins, at first making but slight progress, and repeatedly interrupted by temporary relapses. Thus, for instance, in August, 1917, an average operating capital of 131.9 million guilders and in March, 1918, one of 143.1 million guilders are recorded. In the month of May, 1918, this capital again exceeds 200 million guilders (for the first time in almost three years), but it is not until the last quarter of that year that the increase really begins to assume considerable dimensions, reaching and surpassing the figures of the first months of the War. In November, 1918,—the month of the armistice, —the average operating capital of the Bank is more than 350 million guilders for the first time in its history, and in January, 1919, it even reaches 399 million guilders. A short reaction is then seen, but in the latter half of 1919 the increase in the volume of operations is resumed with redoubled energy. In the month of October, 1919, the average operating capital for the first time amounts to more than 400 million guilders, and after that practically every month shows a fresh record until in May, 1920, the climax is reached with an average of 549.1 million guilders.[3] After this date a down-

[1] The fiscal years of the Netherlands Bank run from April 1 to March 31. The figures given in this section are taken from the *Annual Reports* of the Netherlands Bank.

[2] The daily figure of the operating capital of the Bank attained its minimum a little earlier, namely, on May 20, 1916, with a sum of 115.3 million guilders. One has to go back to the year 1904 in order to find lower amounts.

[3] The daily figure of the operating capital reached its maximum on May

ward tendency is experienced, which does not, however, assume very considerable proportions. In the period from June, 1920, to January, 1921, the monthly average of the operating capital only twice falls below 450 million guilders, and the last-mentioned month still shows a figure of 503.4 million guilders. During the remainder of 1921 the operating capital fluctuates, with only slight variations, at about 450 million guilders, and it is not until 1922 that figures of less than 400 million guilders recur. The yearly average of the operating capital is 457.5 million guilders for 1921, and 409.1 million guilders for 1922.

The fluctuations briefly sketched above will appear in a still more remarkable light if we analyze the operating capital of the Bank into its chief components and then consider the variations of the figures of each of these components separately. For this purpose the reader is referred to the table on page 50, which clearly shows that the changes in the volume of operating capital were chiefly due to discounts and advances,[4] and that the statistics of each of these two headings by no means run parallel to each other.

At the commencement of the War we see the volume of discounts suddenly take a violent rise. They more than double the pre-war figures and remain at this level for about four months. In December, 1914, they begin to diminish, and this downward course is continued, with occasional interruptions, until the spring of 1918, when a mini-

6, 1920, with the sum of 629.3 million guilders. This was more than three times the highest amount of the operating capital ever seen before the War, namely, 209.6 million guilders on November 1, 1913.

[4] The term *advances* here includes the total of all loans on securities, goods, and bullion or specie, plus the advances in current account and the advance, bearing no interest, which the Bank is obliged to make to the Government under Article 16 of the Bank Act. Lack of space prevents us from discussing each of these items separately in detail, but we may say that in the period under review the advances were for the greater part made against securities. The advances against goods were of much less consequence, and those against bullion and specie were of minor importance. The advances in current account were rather variable. They reached their highest point in the fiscal years of 1917-1918 and 1918-1919, when they averaged 39.7 million guilders and 40.9 million guilders, respectively; but as a rule they remained below 30 million guilders and frequently even fell below 20 million guilders. The advance to the Government is restricted by law to a maximum of 15 million guilders. During the time under consideration the Government had practically always taken up the whole of this amount.

DISCOUNTS, ADVANCES, AND FOREIGN BILLS OF THE NETHERLANDS BANK, 1914-1922

(monthly averages in millions of guilders)

	Discounts	*Advances**	*Foreign bills*		*Discounts*	*Advances**	*Foreign bills*
1914				1917			
January	70.9	98.9	13.6	January	76.2	87.9	7.9
February	60.3	88.7	14.1	February	67.1	97.1	8.0
March	52.9	88.3	19.3	March	78.3	92.5	7.6
April	65.5	89.3	18.7	April	79.7	99.0	7.8
May	72.5	87.1	19.5	May	76.8	101.3	8.0
June	66.8	74.4	19.6	June	53.8	93.4	7.3
July	74.2	80.8	17.9	July	49.7	83.8	7.9
August	170.4	143.5	13.1	August	37.3	86.4	8.1
September	172.8	144.5	8.9	September	71.2	82.7	7.4
October	182.1	147.1	4.1	October	68.7	89.9	7.9
November	183.5	145.1	1.7	November	70.7	105.9	8.1
December	164.2	138.2	0.7	December	65.5	104.2	7.3
1915				1918			
January	154.3	146.1	0.7	January	73.4	108.3	8.0
February	102.6	200.1	0.7	February	40.4	128.8	8.2
March	81.2	203.4	0.5	March	22.0	114.0	7.1
April	65.3	186.6	..	April	36.4	133.2	7.0
May	61.8	170.7	..	May	55.1	149.9	7.2
June	71.2	138.0	0.4	June	45.4	121.9	7.6
July	69.3	111.4	2.9	July	43.3	127.9	8.5
August	61.9	105.9	3.1	August	63.6	115.3	8.4
September	60.8	101.0	3.1	September	100.4	117.8	7.9
October	71.2	100.4	4.2	October	126.4	130.0	8.3
November	75.0	104.4	4.2	November	192.2	155.8	8.2
December	74.5	101.8	2.7	December	225.8	151.6	8.0
1916				1919			
January	79.1	97.8	4.1	January	234.8	155.7	8.5
February	74.7	88.4	4.1	February	141.2	194.4	8.3
March	69.2	83.5	3.7	March	110.7	207.7	8.0
April	94.0	87.4	4.5	April	138.6	219.5	7.6
May	46.9	86.8	8.4	May	141.7	239.3	13.4
June	39.1	83.5	7.7	June	109.3	219.9	21.6
July	34.5	83.1	8.1	July	113.9	226.1	9.6
August	69.0	80.6	7.7	August	102.8	246.4	20.3
September	103.9	74.7	7.8	September	126.9	230.7	25.9
October	98.9	68.9	8.1	October	134.2	246.7	31.2
November	70.1	81.8	7.8	November	145.0	275.9	31.8
December	55.1	85.4	7.7	December	159.7	277.1	33.1

* *See* p. 49, note 4.

	Discounts	*Advances**	*Foreign bills*		*Discounts*	*Advances**	*Foreign bills*
1920				1921			
January	209.7	234.8	31.9	January	207.1	255.8	40.4
February	223.0	219.1	40.6	February	175.8	242.2	31.8
March	218.9	209.1	41.7	March	197.5	225.9	24.7
April	239.3	210.1	34.3	April	231.5	220.4	12.6
May	171.5	317.6	60.0	May	264.6	204.0	28.7
June	132.4	311.8	52.2	June	234.3	172.4	29.2
July	100.9	337.3	23.5	July	275.4	149.9	35.2
August	92.9	321.3	31.7	August	242.5	162.7	29.2
September	93.4	318.3	37.0	September	243.0	149.5	32.2
October	136.7	322.6	22.3	October	284.8	143.0	29.8
November	163.5	293.8	24.2	November	302.4	132.9	29.7
December	183.3	271.6	42.1	December	280.0	141.1	28.1
1922				1922			
January	277.1	145.3	23.3	July	211.8	124.1	79.6
February	200.8	157.3	24.2	August	190.9	115.7	77.2
March	201.0	157.2	42.5	September	185.9	124.9	71.3
April	186.1	147.7	78.3	October	215.3	124.8	69.9
May	212.8	132.8	93.0	November	219.5	130.2	74.3
June	185.2	117.7	92.9	December	207.2	136.3	75.3

* *See* p. 49, note 4.

mum monthly average of 22 million guilders is reached. The tide then turns, and the number starts to increase once more. This rise assumes considerable proportions during the winter of 1918-1919, and the amount of discounts passes 200 million guilders. The latter part of 1919 shows another fall, but the first month of 1920 again puts on record figures of more than 200 million guilders. A short reaction is seen during the summer of 1920, but the increase is resumed in the autumn, and the monthly average of the discounts continues to rise until, in November, 1921, it reaches its maximum of 302.4 million guilders. A fall then follows, but does not proceed very far. During the greater part of 1922 the monthly mean of the discounts fluctuates, with slight variations, at about 200 million guilders, the average for the whole year being 207.8 million guilders.

The advances follow a somewhat different line. They also show a sudden increase at the outbreak of the War, but this rise is relatively smaller than that of the discounts. Further, the augmentation in the volume of advances lasts much longer than that of discounts. Whereas the latter reached a maximum in November, 1914, the

advances continue to rise right on into the early part of 1915, and show no tendency to recede until April of that year. Moreover, this reduction is of far shorter duration than the fall in the discounts, which commenced in December, 1914, and does not nearly assume such proportions. We have just seen that the discounts reached their lowest figure early in 1918 with a monthly average of 22 million guilders. The advances attain their minimum in October, 1916, with a monthly mean of 68.9 million guilders, and then manifest a rising tendency which culminates in the course of 1917 by exceeding the monthly average of 100 million guilders. The increase then continues steadily during 1918, and early in 1919 the high monthly means of the first year of the War are surpassed. During the remainder of 1919, and particularly during the first half of 1920, the advances show higher and higher figures, the maximum being attained in July, 1920, with an average of 337.3 million guilders. The volume of advances then shows a reaction and begins to fall at a fairly rapid rate with the result that the monthly average reaches 172.4 million guilders in June, 1921. After this date the figures fluctuate, with slight variations, between 120 million guilders and 160 million guilders, the average for the year 1922 being 134.5 million guilders. It will be observed that this last decline in the number of advances commences much earlier than the corresponding decrease of the discounts, and that it assumes considerably greater proportions. Consequently, since April, 1921, the discounts—in contrast with what was the case, with but few exceptions, during the period of 1914-1920—have constantly moved at a higher level than the advances. This phenomenon is the more remarkable as, throughout the years immediately preceding the War, the amount of the discounts was only very occasionally and exceptionally greater than that of the advances.[5]

After what has been related in the foregoing chapter in regard to the condition of the money market in general, the explanation of these fluctuations in the volume of discounts and advances of the Netherlands Bank is comparatively simple. The increase during the first months of the War is naturally to be attributed to the crisis

[5] The annual average of the advances in the ten fiscal years preceding the outbreak of war was, in fact, always greater than that of the discounts. During those ten years, 51.10 per cent of the operating capital of the Bank consisted, on an average, of advances as against 39.25 per cent of discounts.

which set in at the outbreak of war. We have discussed this situation in detail in the previous chapter, and there is no need to go into this subject any further here. The fact that the discounts at first increased with greater rapidity than the advances is to be explained by the Government's need for credit. The Netherlands' mobilization of her army and navy on the eve of war forced the country into great expenditure and obliged the Government to issue large sums in Treasury paper in order to meet immediate cash requirements. A considerable portion of this paper was placed with the Netherlands Bank—a fact which accounts, to a large extent, for the augmentation in the discount portfolio.[6] The prolonged increase of the advances during the first months of 1915, while the discounts already showed a downward tendency, was also due to the financial measures adopted by the Government. As already mentioned in the previous chapter, a long term government loan of 275 million guilders was issued in the early days of 1915. In order to ensure the flotation as far as possible, the Netherlands Bank announced that it was prepared to make advances on the certificates of this issue on very favorable terms. This accommodation was called upon to a fairly considerable extent by the subscribers to the loan, which naturally led to a further increase in the Bank's advances. On the other hand, the Government was able with the proceeds to redeem Treasury paper, with the result that the discount portfolio of the Bank greatly diminished.

The relatively small amounts of the discounts in the years 1915-1917 and during the first part of 1918, and the fall in the volume of advances in the course of 1915 and during the greater part of 1916, are explained by the remarkable abundance of money which, as we have seen above, prevailed in the Netherlands; throughout these years trade and industry required the assistance of the Netherlands Bank in the way of credit only to a very small extent. This condition

[6] Before the War, the amount of Treasury paper held in the discount portfolio of the Netherlands Bank rarely exceeded 10 million guilders; the highest figure ever reached previous to 1914 was 28 million guilders (July, 1897), while there were often long periods (as recent as in the years 1911 and 1912) in which the Bank had no such paper whatsoever. This changed immediately at the outbreak of war. On August 31, 1914, the Bank already had 37 million guilders in Treasury paper in its portfolio; a month later this had grown to 60 million guilders, and on January 2, 1915, it amounted to 80 million guilders.

of affairs would have caused the discounts to diminish even further than they actually did, if the Government had not been continually obliged to take up large amounts of money from the Bank of Issue by means of Treasury paper in order to maintain the country in a proper state of defense and to provide it with an adequate supply of food. The total of all the discounts of the Netherlands Bank during the fiscal years 1915-1916, 1916-1917, and 1917-1918 amounted to 348.7 million guilders, 411.9 million guilders, and 505.4 million guilders, respectively. Of these amounts 52.9 per cent, 70.4 per cent, and 78.4 per cent, respectively, consisted of Treasury paper. The daily figures of commercial paper in the discount portfolio of the Netherlands Bank during this period dropped to a level which had not been seen for many years. On March 31, 1916, only 20 million guilders were recorded. On October 20, 1916, the total amount of such paper in the portfolio did not exceed 15.5 million guilders, and on September 21, 1917, it had even receded to 10.2 million guilders. That the advances of the Bank began to show a slight increase in the course of 1917 and in the first half of 1918, in spite of the extraordinary abundance of money proved by these statistics, was due to the issue, in January, 1917, and January, 1918, of long term government loans, for which the Bank offered the same facilities as had been granted for that of January, 1915.

The movements exhibited by the discounts and advances since the armistice reflect, in the first place, the violent trade fluctuations which characterized this period: the boom of 1919, lasting into the first half of 1920, and the subsequent depression.[7] At the same time, the financial measures taken by the Government also played a very important part in this period. In consequence of a number of factors which cannot here be described in detail, State expenditure continued greatly to exceed the revenue even after the termination of the War, with the result that the Government was constantly obliged to issue large sums of Treasury paper which, after shorter or longer spaces of time, were consolidated into long term loans. Evident traces of this state of affairs are to be seen in the figures of the operations of the Bank of Issue. The high amounts of the dis-

[7] The remarkable increase in the discounts during the last few months of 1918 naturally cannot be attributed to the post-war boom. It was due to the political unrest then prevailing in the Netherlands which has briefly been referred to elsewhere (*see* p. 25, note 26).

counts in the early part of 1919 and of 1920 are, for instance, chiefly due to the placing of Treasury paper with the Central Bank. That both subsequent years showed a reaction from these figures and that, during this period, the advances ultimately increased even more rapidly than the discounts, is to be explained by the issue of the government loans of January, 1919, and May, 1920, which made it possible to redeem part of the floating debt. The latter of these (a compulsory loan of 436 million guilders) was particularly characteristic in this respect. For a short time it caused Treasury paper to disappear entirely from the discount portfolio of the Netherlands Bank, while, on the other hand, it brought about a considerable increase in the advances. The high figures of the former during the years 1921 and 1922, and the fact that the discounts only reached their maximum almost eighteen months later than the advances, are also largely explained by the credit requirements of the State. After the issue of the forced loan of May, 1920, the Government, in view of the high rate of interest on the market for long term loans, considered it wise not to consolidate any more State debt for the time being, with the result that the floating debt showed a practically uninterrupted increase until the beginning of 1922. Consequently, during this period, large sums of Treasury paper had again to be placed with the Central Bank; and during the last three months of 1921 the Bank held, on an average, no less than 108 million guilders in government paper in its portfolio. It was not until 1922, when large sums of the floating debt were once more consolidated, that a change occurred. During the latter year, however, a sum of 45 million guilders in Treasury paper almost constantly remained in the Bank's discount portfolio. It must not, however, be understood from all this that the large figures of the discounts in 1921 and 1922 were exclusively due to the credit requirements of the State. The increase in the bill portfolio during these years is also to be attributed in part to discounts of commercial paper. In contrast to the advances, which began to fall as soon as the depression set in, the discounts of commercial paper continued to move in an upward direction for a considerable time after. It was not until May, 1922, that they reached their maximum with a monthly average of 194 million guilders. This rise was entirely due to the difficulties in which trade and banking were involved in consequence of the continued fall in prices and which to an increasing extent forced

a number of institutions to call upon the Central Bank for assistance.

Before we leave the operations of the Netherlands Bank, a few words must be said on the figures of the last column of the return given on page 50. A single glance at these statistics will suffice to show that the foreign bill portfolio of the Bank during the War and in the first few months of 1919 was insignificant. Throughout the War, the Bank considered that large holdings of foreign bills involved excessive risks, and care was therefore taken to keep the foreign portfolio within as modest limits as possible. This state of affairs undergoes a change, however, during the fiscal year 1919-1920. The foreign bill portfolio begins to increase, and this rise continues, with occasional slight interruptions, for the remaining years of the period under review. In 1922, the total of the foreign bills averages almost 70 million guilders. This gain in the figures of the foreign bill portfolio during the post-war years is to be attributed to various causes. In the first place, the Bank had, by mediating, during the conflict, in realizing dollar balances of Netherlands origin, acquired considerable gold deposits in the United States.[8] After the armistice, these assets were converted into bills, which subsequently were gradually realized. Further, in the months of March and April, 1921, and of September and October, 1922, several shipments of gold were sent to the United States, and this also was provisionally converted into bills. Finally, in the last-mentioned year, a third factor reinforced the foreign bill portfolio of the Bank.

[8] This was due to the considerable depreciation of the dollar in relation to the guilder which, as we shall see in the next chapter, prevailed during certain periods of the War. This decline, particularly towards the end of 1915 and in the early part of 1916, threatened to involve a fairly large category of persons in great losses. Such was the case with all those who had claims on the United States for dividends or interest on their holdings of American securities, and also with all who, as a result of commercial transactions with the United States, possessed deposits there which dated from before the fall of the dollar exchange. In order to restrict such losses as much as possible, the Netherlands Bank was prepared to take over these claims and balances from the parties concerned on a basis of 2.42 guilders per dollar, provided that purely Netherlands interests were involved and on condition that the countervalue in gold was deposited on its behalf in the United States.

As we have seen in the preceding chapter,[9] a dollar loan of $100,000,000 was placed in the United States on behalf of the Netherlands East Indies in 1922. The proceeds of this were taken over in dollars from the Government by the Netherlands Bank, partly in collaboration with the Java Bank and Netherlands East Indies Bank of Issue. Pending gradual realization, a portion of the deposits thus acquired by the Bank was also invested provisionally in bills.

In the next chapter we shall discuss the foreign bill policy of the Netherlands Bank. For the present these brief indications concerning the movements of the foreign bill portfolio will suffice.

The changes in the metallic reserve of the Bank of Issue during the period under consideration form in many respects a remarkable contrast with the movements of the operations. A table is appended below showing this stock of the Bank in the years 1914-1922. The

METALLIC RESERVE OF THE NETHERLANDS BANK, 1914-1922

(*monthly averages in millions of guilders*)

Month	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
January	160.5	229.9	451.7	596.8	710.5	696.5	640.4	658.1	613.5
February	163.3	249.1	491.5	597.0	722.2	689.6	641.5	658.1	613.0
March	169.4	279.3	510.3	598.5	730.3	683.6	643.8	651.6	612.8
April	169.8	293.7	525.7	599.3	735.3	675.3	645.8	628.5	611.5
May	171.2	310.8	538.6	603.3	729.2	669.9	647.8	619.3	611.9
June	170.7	334.4	558.7	611.3	726.4	670.3	649.4	618.6	613.1
July	169.5	369.5	588.8	635.0	724.3	660.7	650.9	617.4	613.8
August	163.3	378.8	597.4	661.5	716.0	649.8	652.2	616.9	614.6
September	164.1	384.6	593.7	678.6	715.7	637.7	653.5	616.3	609.8
October	163.6	394.9	592.0	688.9	714.2	637.1	654.8	615.3	591.3
November	178.8	410.0	590.8	698.8	706.6	637.6	655.8	614.7	590.6
December	203.2	427.5	595.1	705.4	699.6	641.7	656.9	614.3	590.8

figures here given represent the value of both gold and silver in one total, but the proportion of silver was insignificant, for the Bank's stock of it during this period did not, as a rule, exceed 1 to 2 per cent of the total metallic reserve. Until the spring of 1920, the stock of silver was, almost without exception, always less than 10

[9] *See* p. 40.

million guilders. During the fiscal year 1920-1921, owing to the withholding of silver currency with a view to recoinage,[10] it increased for a time to upwards of 22 million guilders, and then gradually fell again until, in October, 1921, it once more stood at less than 10 million guilders. After that it constantly remained below that amount until June, 1923.

This table clearly shows that the metallic reserve of the Central Bank increased considerably during the years under review. As we have seen, the same can be said of the operations of the Bank, and it may seem from this that, on the whole, the movement of the reserve was fairly well in keeping with that of the investments. But when the fluctuations of each group of figures are more minutely observed, certain radical differences are soon revealed. In the first months of the War, for instance, when the Bank's operating capital showed a great increase, the metallic reserve remained practically stationary. On the other hand when, towards the end of 1914, the operating capital begins to diminish, a sharp rise in the reserve is to be seen. This augmentation continues practically without interruption until, in April, 1918, the metallic stock amounts to fully 735 million guilders, or more than 450 per cent of the average in the fiscal year 1913-1914.[11] The total of operating capital in that month stood at 176.6 million guilders, which was about as high as during the last fiscal year before the War. After April, 1918 (just when the great increase in the earning assets of the Bank commences), the metallic reserve begins to diminish. This fall continues at first until the end of 1919, and reduces the reserve by about 100 million guilders. The year 1920 then shows a fresh rise which, however, remains within very modest limits (it was exclusively due to the temporary increase in the stock of silver above alluded to), and in 1921 the downward course is resumed. The result is that at the end of 1922 the metallic reserve amounts to 591 million guilders, or more than 365 per cent of the average of the fiscal year immediately preceding the War.

We can be quite brief as to the explanation of these movements

[10] *See* p. 19.

[11] The maximum was reached on April 10, 1918, with a sum of 740.2 million guilders. The highest figure of the metallic reserve of the Bank during the ten fiscal years immediately preceding the War was 175.1 million guilders (November 21, 1912).

in the metallic reserve. The enormous increase during the War is naturally to be attributed to the very considerable imports of gold which characterized that period. We have already pointed out in the previous chapter that this influx was the necessary, if not always welcome, consequence of the peculiar position in which the Netherlands found itself, a neutral State in the midst of belligerent powers; and we need not labor the point. Practically all the gold imported found its way to the Netherlands Bank. During the fiscal years 1914-1915, 1915-1916, 1916-1917, and 1917-1918, the Bank purchased a total of no less than 369.654 kgs. of gold bullion and foreign coin, while a certain quantity of Netherlands ten-guilder and five-guilder pieces, with a total value of a few million guilders, also came into the possession of the Bank. On the other hand, the amounts released by the Bank were hardly worth mentioning. Altogether, it did not, during the years 1914-1915, 1915-1916, and 1916-1917, sell more than 6.799 kgs. of gold, while the sum of a few million guilders was shipped to the Netherlands East Indies in the form of ten-guilder pieces. During the year 1917-1918, 23.015 kgs. of gold were sold, and a further sum in ten-guilder pieces was delivered for the Netherlands East Indies.[12] Consequently the metallic reserve showed an enormous increase in this period. The position changed during the fiscal year 1918-1919. The large imports of gold ceased, and the quantities which the Bank was able to buy after April, 1918, were of minor significance. During the fiscal years from 1918-1919 to 1922-1923 inclusive, a total of only 22.261 kgs. of gold was purchased; and by far the greatest part of this was bought during 1918-1919 and 1919-1920. On the other hand, the quantities released by the Bank began to grow in importance. This particularly applies to the years 1918-1919 and 1919-1920, when a total (during these two years) of 44.827 kgs. of gold was set free (most of which went to the Netherlands East Indies, Switzerland, Scandinavia, and Spain) while at the same time fairly large amounts of ten-guilder pieces were released on behalf of the Netherlands East Indies.[13] In the years 1921 and 1922 the gold

[12] In order to increase its stock of Netherlands gold coin, the Bank had about 40 million guilders' worth of ten-guilder pieces coined during this year.

[13] During the period 1916-1919 the Netherlands Bank had, altogether, shipped to the Netherlands East Indies a sum of upwards of 85 million guilders in gold.

shipments to the United States, to which allusion has elsewhere been made, further reduced the metallic reserve of the Bank.

After all that has been said in the foregoing pages, the reader will not be surprised that the note circulation and the balances in current account of the Netherlands Bank also showed a considerable increase during the period under review. The following table gives an idea of the fluctuations of the former.

NOTE CIRCULATION OF THE NETHERLANDS BANK, 1914-1922

(*monthly averages in millions of guilders*)

	1914	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
January	319.9	486.9	579.0	745.3	886.9	1,075.0	1,039.9	1,072.4	1,026.6
February	302.6	454.0	581.0	742.1	865.2	1,024.4	1,026.3	1,046.0	998.6
March	303.9	458.0	589.2	738.4	867.7	1,007.2	1,020.7	1,040.1	980.0
April	318.4	474.0	656.6	757.3	904.2	1,029.2	1,054.6	1,050.2	997.3
May	327.8	485.7	651.8	769.3	946.7	1,053.7	1,065.4	1,057.6	1,018.7
June	308.7	485.9	641.4	748.4	915.1	1,014.7	1,012.5	1,010.5	981.4
July	321.8	505.1	656.1	768.0	921.3	1,018.6	1,030.8	1,022.7	991.0
August	446.3	511.1	664.3	773.5	925.6	1,002.8	1,024.8	1,007.9	971.1
September	444.0	522.7	681.2	789.5	958.2	1,000.6	1,031.4	1,007.2	973.3
October	461.7	549.5	716.7	821.5	988.7	1,019.2	1,064.6	1,029.9	986.3
November	478.5	567.5	743.4	859.5	1,062.4	1,051.0	1,082.0	1,038.7	989.1
December	477.3	566.7	740.2	872.3	1,069.3	1,042.4	1,079.0	1,025.0	978.7

It will readily be seen from this table that the note circulation of the Netherlands Bank increased practically without interruption during the War. From an average of 321.8 million guilders in July, 1914, it rose to 1,062.4 million guilders in the month of the armistice.[14] After this, for a time it remained fairly stationary. In the three years following, the monthly average fluctuated, with comparatively small variations, between 1,000 million guilders and 1,083 million guilders, the maximum being reached in November,

[14] For the sake of comparison it may be mentioned here that the average note circulation of the Netherlands Bank during the five fiscal years preceding the outbreak of war amounted to about 295 million guilders; the highest figure ever reached by the note circulation during the hundred years which on March 31, 1914, had elapsed since the foundation of the Bank was 341 million guilders.

1920, with 1,082 million guilders.[15] In 1921 a downward tendency was observed, but it was February, 1922, before the average note circulation had been reduced below 1,000 million guilders. The remaining months of 1922 showed slightly lower amounts, and the year closed with a monthly average of 978.7 million guilders.

If these figures are compared for a moment with the table of the operations of the Bank given on page 47, it will immediately be seen that the movements in the note circulation could only partly be explained by the growth of the Bank's earning assets during the period under review. It was also due to a certain extent (and certainly to one no less important) to the fluctuations in the metallic stock. At first only the former factor operated: the increase in the note circulation during the first months of the War was, without any doubt, exclusively the result of the increase of the operations caused by the crisis; and we have seen that the metallic reserve of the Bank remained at practically the same level throughout this time. A radical change was, however, brought about in this situation towards the end of 1914. The operating capital began to diminish considerably; this tendency continued until the middle of 1916 and reduced the investments of the Bank to a figure which had not been seen for many years. The decline gave way, it is true, to a slightly ascendant movement after the middle of 1916; but this was of such small importance at first that even in April, 1918, the total operating capital had scarcely reached its pre-war level. Remarkably enough, this decline in the volume of the Bank's movements was by no means accompanied by a shrinkage in the note circulation. On the contrary, the circulation showed its greatest increase in this period; it grew in volume practically without interruption, and in April, 1918, it amounted to almost three times the pre-war figures. This increase in the note circulation (which represents fully 75 per cent of its total gain during and after the War) is to be explained entirely by the simultaneous increase in the metallic stock of the Bank.[16] The situation underwent a fresh change after April, 1918.

[15] The maximum of the daily figures was reached somewhat earlier, *viz.*, 1,154 million guilders on May 4, 1920.

[16] It is a remarkable fact that the great increase in note circulation during these years was accompanied by a considerable augmentation in the proportion of the larger denominations of bank notes, particularly of those of

The gain in the metallic reserve came to a standstill. That, in spite of this fact, the bank-note circulation continued to rise, at first with even greater vigor, was exclusively due to the enormous expansion of the Bank's operations during the subsequent years. This would have brought about a still greater augmentation in the note circulation if the shrinkage in the metallic stock which took place at the same time had not had the tendency of reducing the volume of that circulation. Finally, in the course of 1920, the increase in the operations of the Bank also ceased, and during 1921 and 1922 there were two factors which, working towards the same end, gradually caused the note circulation to become less, namely, the diminution in the operations of the Bank and the decrease in the metallic reserve.

The movements of the balances in current account, although in the main showing some correspondence with those of the note circulation, exhibit certain differences in their details. It must be remembered that we here refer only to other than government balances, which, during this period, were so few and far between and, on the whole, of such minor importance that we shall leave them out of consideration altogether. The following table, therefore, shows only the average of the so-called other balances. It may be observed here that the Netherlands Bank does not pay interest on balances in current account.

1,000 guilders. For instance, on March 31, 1914, 13.8 per cent of the entire note circulation (based on the total value) consisted of that denomination. On March 31, 1918, this ratio had practically doubled and was 26.1 per cent. This proportionately great increase in the number of larger denominations of notes in circulation indicates that the bank notes, made current at this time, were to a large extent not used as circulating media, but for hoarding, and this is confirmed by the fact that the notes returned to the Bank during this period were in an unusually clean condition. In recent years the proportion of the larger denominations in the total circulation has again diminished. On March 31, 1921, the 1,000 guilder notes represented only 22.9 per cent of the total, and this ratio had been reduced to 20 per cent on March 31, 1923.

BALANCES IN CURRENT ACCOUNT (OTHER THAN THOSE OF THE GOVERNMENT) AT THE NETHERLANDS BANK, 1914-1922

(*monthly averages in millions of guilders*)

Month	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
January	4.5	29.6	53.5	72.5	54.6	87.9	102.9	85.3	41.1
February	4.4	15.9	86.6	71.4	43.9	73.3	112.9	54.2	27.4
March	4.4	44.8	95.3	80.2	57.5	75.7	110.2	43.4	28.0
April	4.5	40.1	82.2	75.3	67.1	81.8	101.8	52.2	33.5
May	6.3	43.8	55.9	54.1	53.3	73.2	117.3	64.3	39.9
June	7.3	48.8	72.8	58.7	48.7	66.5	149.4	61.0	49.1
July	6.1	39.7	93.3	53.1	63.1	64.1	115.1	65.8	52.4
August	29.1	35.1	125.5	62.4	56.0	71.4	97.5	53.4	39.0
September	31.0	24.2	136.3	87.4	64.6	69.5	61.7	37.9	24.6
October	22.7	17.8	87.2	73.7	68.9	72.4	86.4	43.1	27.8
November	19.5	25.8	47.6	61.8	77.3	79.1	88.4	39.4	30.9
December	18.0	40.0	45.8	46.6	82.4	100.6	77.7	34.2	33.5

These figures clearly prove that the balances in current account, like the note circulation, commenced to increase immediately after the outbreak of war. The rise continued until 1920 and gave way, in the course of that year, to a downward movement, which steadily continued into 1921 and 1922. This is, however, practically all that can be said regarding the parallel course between the note circulation and the balances in current account. If we look into our table a little more closely, we shall immediately see that the balances exhibit a much more irregular movement than the note circulation; the rise in the former during the years 1914-1920 is repeatedly interrupted by a relapse. Another striking fact is that the balances have, in these six years, proportionately increased far more than the note circulation. To mention only a few figures, we may say that during the year 1920 the balances in current account averaged nearly 102 million guilders, which was more than twenty times that of the fiscal year 1913-1914; the note circulation in the same year showed a mean of 1,044 million guilders, which was not quite four times that of the fiscal year 1913-1914.[17] On the other hand, during

[17] This relatively great increase in the balances in current account is the more remarkable because before 1914 the movements in the balances were, as a rule, characterized by great regularity. In those days they fluctuated, in general, between 4 million guilders and 6 million guilders. It was only in exceptional circumstances (for instance, during the crisis of 1907) that somewhat higher figures were seen for a short time, though only excep-

the years 1921 and 1922 the volume of balances in current account diminished far more rapidly than the bank-note circulation, the latter eventually diminishing by about 10 per cent, while the former was reduced by about 75 per cent. Finally, it is also worthy of note that the movements of the balances in 1919 and 1920 reflect the influence of the trade depression of this period far more clearly than the figures of the bank-note circulation.

This remarkable line in the movements of the balances in current account was the result of a variety of causes. In the first place, the commission of $\frac{1}{20}$ per cent, which the Bank used to charge on payments in current account, was abolished at the outbreak of the War, while it was further decided that only half of the proceeds of new loans granted by the Bank should in future be paid in cash, the other half being placed to the credit of the borrower's account. These two measures, of which the first has become permanent, while the second was withdrawn after some time, immediately increased both the number of accounts and the amount of the average balance per account,[18] and at a single stroke placed the balances at a much higher level. It is clear that the low rate of interest in the open market and the remarkable abundance of short term money which, as we have seen in the preceding chapter, prevailed in the Netherlands throughout the greater part of the period here reviewed, also partly explain the augmentation of the balances in current account. Another portion of the increase during the War may certainly be attributed to the fact that, in consequence of the prevailing uncertainty as to the immediate future and relying on the safety of a balance at the Bank of Issue, many depositors were induced to prefer an account with the Netherlands Bank to one with some other institution.

Apart from these various causes, the changes already described in the balances in current account were, to a certain extent, also due to a factor of more general nature. We have in mind the remarkable alteration in the paying habits of the public in the Netherlands

tionally was an amount of more than 13 million guilders ever recorded. The highest sum shown during the crisis of 1907 by the balances in current account was not quite 13.8 million guilders. The average during the five years immediately preceding the War was 4.8 million guilders.

[18] The number of accounts at the Netherlands Bank increased almost 75 per cent during the fiscal year 1914-1915.

during and after the War in that transfers and cheques began to be used instead of cash to a far greater extent than had ever been the case before. Long before the outbreak of hostilities, the Netherlands Bank had made it possible for its clients to effect their payments by means of a so-called *giro*, or transfer, system, and had been at constant pains to develop this method. These attempts had, however, shown but poor results, for the custom of paying in cash was so firmly rooted in the Netherlands that the transfer system of the Central Bank never assumed great proportions before 1914. The World War changed this, an additional factor being an alteration in the application of the system according to which the Bank, in August, 1914, permitted persons and institutions not having an account in its books to participate in its transfer system through their own bankers. The method has since developed to an unprecedented extent, as is shown by the following table.

NUMBER AND VOLUME OF TRANSFERS EFFECTED BY THE NETHERLANDS BANK DURING THE YEARS 1913-1923

Fiscal year	*Number of transfers*	*Amount in thousands of guilders*
1913-1914	70,063	339,679
1914-1915	122,332	905,250
1915-1916	173,199	1,684,014
1916-1917	205,068	3,526,478
1917-1918	231,288	4,638,399
1918-1919	245,697	8,199,266
1919-1920	320,005	15,172,625
1920-1921	448,574	23,018,222
1921-1922	533,523	24,316,371
1922-1923	620,122	19,705,512

It goes without saying that this vigorous development of the *giro* system, supplemented by the custom of paying by means of cheques, which was also becoming more and more customary, contributed in large extent to the increase in the balances in current account of the Netherlands Bank during the years 1914-1920. The comparatively great irregularity which characterized the movements in the balances, and the fact that they proved to be much more sensitive to the influence of trade fluctuations than the note circulation, can, no doubt, also be largely explained by these two factors.

Having thus reviewed the figures concerning the operations, the metallic stock, the note circulation, and the balances in current account of the Netherlands Bank, we shall now devote a few words to the course pursued by the Bank of Issue during the period under consideration. In so doing, we shall for the present leave out of consideration the Bank's foreign exchange policy, which, as already stated, will be discussed in the next chapter. We shall here limit ourselves to a brief review of the home policy of the Bank of Issue; and it will be convenient to begin with its attitude as regards its rate of interest.

The following table shows the changes made in the rate of interest charged by the Netherlands Bank from 1914 to 1922 inclusive.

CHANGES IN THE NETHERLANDS BANK'S DISCOUNT AND LOAN RATES, 1914-1922

	Discount rate		*Loan rate*				*Rate for advances in current account*
Date of change	*for bills*	*for promissory notes*	*for home stocks*	*for foreign stocks*	*for goods and specie**	*short loans†*	
February 17, 1914	4½	5	4½	5	4½	5½	5½
February 24, 1914	4	4½	4	4½	4	5	5
March 23, 1914	3½	4	4	4½	4	5	5
July 29, 1914	4½	5	5	5½	5	6	6
August 1, 1914	6	6½	6½	7	6½	7	7
August 14, 1914	6	6½	6	6½	6	6½	6½
August 20, 1914	5	5½	5	5½	5	5½	5½
July 1, 1915	4½	5	4½	5	4½	5½	5½
October 19, 1920	4½	5	5½	6	4½	..	6½
June 22, 1922	4½	5	4½	5	4½	..	5½
July 18, 1922	4	4½	4	4½	4	..	5

* Before November, 1914, there was a special rate of 1 per cent for loans on bullion and specie, this being based on an old tradition which dated back to the year 1819. As, however, this special rate had long lost its *raison d'être*, it was decided in May, 1914, to abolish it as from November 1, 1914.

† Before the War, it was usual for ordinary loans from the Netherlands Bank to be made for a period of three months. Besides these, there were formerly the so-called short loans, which usually were for a term of from 8 to 10 days, and for which a higher rate was always charged. These short loans had, however, in course of time, gone entirely out of use and were officially abolished in December, 1917. In the meantime the term for ordinary loans had been reduced from three months to one.

From this table it will be seen that the changes in the rates charged by the Netherlands Bank in these years were not very frequent and, generally speaking, not of great importance. Both during and after the War, the rate of the Netherlands Bank showed, comparatively speaking, a remarkable stability. In the weeks immediately preceding the outbreak of the conflict, the discount charge for bills was 3½ per cent while the rate for loans on home stocks stood at 4 per cent. On July 29, 1914, the day on which the Amsterdam Stock Exchange was closed, the tariff was raised by 1 per cent along the whole line, a measure which was followed three days later by a fresh increase of a further 1½ per cent, except for short loans and advances in current account, which were only augmented by 1 per cent. Consequently the discount charge for bills amounted to 6 per cent at the beginning of August, 1914, the loan rate for home stocks being 6½ per cent. As early as August 14, 1914, however, a small reduction was possible, and the loan rate (including the tariff for advances in current account) was lowered by ½ per cent. A fresh diminution followed six days later, this time by 1 per cent in all items, and on July 1, 1915, the rate was again lessened by ½ per cent except for short loans and advances in current account, which underwent no change on this occasion. The result was that the discount rate for bills and the loan rate for home stocks stood at 4½ per cent. At this level the tariff was maintained for more than five years, until on October 19, 1920, the charges for loans on securities and advances in current account were raised by 1 per cent. This latter increase was removed on June 22, 1922, and on July 18 of the same year a fresh general reduction in the tariff of ½ per cent reduced the discount rate for bills and the loan rate for home stocks to 4 per cent.

It will be clear from the foregoing pages that the rises in the rates in July and August, 1914, were entirely due to the crisis which accompanied the outbreak of war, when the extraordinary demands made upon the Bank rendered them imperative. As compared with what was experienced in several other countries at the same moment, the increase in the rates of the Netherlands Bank cannot be called excessive. In England, the bank charge was raised from 3 per cent to 4 per cent on July 30, 1914; the next day it was doubled; and on August 1 it was even made 10 per cent. The discount tariff for bills of the Bank of France and of the German Reichsbank was increased

to 6 per cent on August 1. This example was followed in Switzerland on August 3, and on the same date the bank rate in Sweden was fixed at 6½ per cent. Moreover, the reduction in charges was soon brought about in the Netherlands, much earlier for instance than in Switzerland and Sweden, both of which, like the Netherlands, took no part in the War. For, while the discount rate for bills in the Netherlands was reduced to 5 per cent as early as August 20, 1914, the Swedish Riksbank did not lower its tariff from 6½ to 6 per cent until August 28, while it was September 10 before the Swiss National Bank brought down its charge from 6 to 5 per cent. This again proves that, as has already been pointed out elsewhere, it was only for a short space of time that there was any question, during the crisis of 1914, of a really serious tension in the Netherlands. The earning assets of the Bank of Issue showed a small downward tendency as early as August 10, and although this decrease did not at first make much progress, it was soon clear that a permanent relaxation in financial circles had set in.

Apart from the rises in the rates of July and August, 1914, the policy pursued by the Netherlands Bank during this period with respect to its interest charge is particularly remarkable for its passive character. In the first place we would draw attention to the fact that during the years 1915 to 1918, when, as we have seen above, there was a great abundance of money in the country, while the volume of the operations of the Central Bank mostly moved in a downward direction, or in any case fluctuated at a comparatively very low level, the Bank only once lessened its rates (on July 1, 1915) by ½ per cent, and did not reduce any of them below 4½ per cent. This policy can be entirely explained by the international situation of the period. As compared with the tariffs of the Banks of Issue in the principal other European countries, that of the Netherlands Bank could, after the reduction of July 1, 1915, be termed decidedly low. It was only in Switzerland that the bill discount charge of the Bank of Issue was also 4½ per cent. The bank rates in England, France, Germany, Austria-Hungary, Italy, Russia, and the Scandinavian countries were all higher. Under such circumstances, a further reduction in the rate in the Netherlands would strongly have attracted foreign demand for credit and would have led to the transfer of credit positions from abroad to the Netherlands on a large scale. It

is obvious that the Netherlands Bank did not wish to encourage a movement in this direction.

The line of action followed by the Bank during the post-war period is even more remarkable. Although in the years 1919 to 1921 the discounts and advances moved largely in an upward direction and were constantly at a high level, the Bank only once put up its rates, and then but partly. On October 19, 1920, the charges for loans against securities and for advances in current account were raised by 1 per cent. This policy is all the more noteworthy since in this period, and particularly in the first half of 1920, various quarters strongly urged the Bank to increase its rates considerably.[19]

Those who were in favor of such an augmentation of the rates believed that the credit expansion which had taken place in the Netherlands since the armistice indicated an alarming degree of inflation. They were, therefore, of opinion that the Bank of Issue should take strong measures to reduce the granting of credits, and the most obvious means of attaining this end was, in their eyes, an increase in the Bank's rates of interest.

The Netherlands Bank did not share these views. It naturally did not deny that an expansion of credit had taken place since the armistice, and it was, in fact, very conscious indeed of the dangers of such growth; but it considered that the raising of the rates would, under the circumstances, be an ineffective means of warding off these perils. What were the circumstances? It has been seen from the foregoing pages that the discount portfolio of the Netherlands Bank consisted at this time, to a very great extent, of Treasury bills, while the advances had been made largely against the pledge of government securities. Further, paper issued by municipal corporations played a considerable part, both in the discount portfolio of the Bank and as a security against advances. And yet neither *vis-à-vis* of the Government nor of the municipal corporations could one expect any great success from a rise in the bank rates. Such an increase would, in practice, have been entirely without effect as far as the Government was concerned, since under the Netherlands Bank Act, the major share of the profits of the Bank of Issue reverts to

[19] This was the case, for instance, in a statement concerning the policy of the Netherlands Bank published in May, 1920, by fourteen professors and other students of economics. We shall revert in the next chapter to this statement, which is also connected with the gold policy of the Bank.

the State.[20] Consequently the greater part of what more the Government would have paid to the Bank in the form of interest would have been paid back by the Bank to the Government in the form of profit. The only thing the Bank could perhaps have accomplished was that, by raising its loan rate, it might have made it rather difficult for the Government to float ordinary long term loans of much importance, for the public would scarcely have subscribed to such issues to any appreciable extent unless they had been able to borrow a considerable portion of the money from the Netherlands Bank on terms which left a certain margin of profit. In that case, however, the State could still have had recourse to the measure of issuing compulsory loans; and we have, in fact, seen this weapon employed in the year 1920. So far as municipal corporations were concerned, one could also be fairly certain that the higher rates would have little or no effect, since the corporations would simply have met any additional cost brought about by a rise in the Bank's rates by raising their taxes.

Consequently, an increase in rates would fail in its object with the very parties chiefly responsible for the expansion of credit, namely, the Government and the municipal corporations. And since, on the other hand, such a rise would have had the obvious disadvantage of seriously affecting genuine trade and industry, and would thus have exercised an adverse influence on production generally, the Bank considered it wise to abstain, on principle, from increasing its rates during this particular period. In the meantime the Bank, as already stated, fully realized the dangers of the prevailing conditions, but it applied a totally different remedy in order to ward off these perils, namely, the so-called "rationing" system which played an important part in the course pursued by the Netherlands Bank after the War. A few words on this system may conveniently conclude the present section.

Chiefly owing to the comparatively low level of the rate of interest on the market for short term money, the municipal corporations had, during the War, more and more adopted the method of borrowing by issuing promissory notes or so-called "anticipation notes."

[20] Roughly speaking, the State receives, according to Article 31 of the Netherlands Bank Act, three-fourths of the annual net profits of the Bank until the dividend payable on the shares reaches 7 per cent. Of any surplus profit the State is entitled to seven-eighths.

After the armistice, this custom, also in consequence of the enormous financial requirements imposed upon the municipalities, assumed alarming proportions; and it repeatedly appeared that several corporations likewise used this form of borrowing for credits which in reality were required for a much longer period than the few months which the paper in question had to run. This state of affairs induced the Netherlands Bank to address a grave warning to the municipal corporations as early as the beginning of 1919. In a statement issued on February 14 of that year it announced that it would in future reserve the right to fix the total amount of municipal paper which it was prepared to discount or accept as collateral for loans, and that it would only accept such paper after it had obtained satisfactory information as to its currency and the method of its redemption or conversion into a long term loan.[21] This warning was repeated and further explained a few months later. In a statement published on April 10, 1919, the Bank laid particular stress on the fact that municipal paper would in future be eligible for discount by it only if the following three conditions had been met: (1) that it must be proved to the satisfaction of the Bank that the issue of the paper in question had been sanctioned by the proper authorities, and that such sanction also covered the nature of the paper; (2) that the Bank should be furnished with a statement showing the total floating debt of the corporation concerned; and (3) that information should be supplied to it with regard to the possibility of redeeming the paper within a definite period.

At the same time the Bank also adopted other measures. In a circular issued on September 20, 1920, it called attention to the large amounts in bonds of the government loans issued during the War and serving as security against its advances. It pointed out that the greater part of the funds obtained by this means had been devoted to non-productive purposes and urged that it was, therefore, highly desirable, in the public interest, for the advances made by the Bank against these government bonds to be redeemed by the respective borrowers from their savings as soon as possible. On October 19, 1920, as a supplementary measure to add some force to this warning, the Bank raised the loan rate for securities and the charge

[21] In the same statement the Bank publicly announced that in discounting municipal paper it would, as from April 1, 1919, charge the higher discount rate for promissory notes, even if the paper was in the form of bills.

for advances in current account by 1 per cent. Finally, during this period, it constantly exercised a strict control on all fresh applications for credit made to it by commercial and industrial concerns. In so doing, it adopted the standpoint that no unnecessary obstacles should be laid in the way of well-considered credits on behalf of really productive purposes, but that, on the other hand, all unsound credit expansion should be severely curbed.

This system of credit rationing has in practice had a most salutary effect; and there is no doubt that it is to a large extent due to the rationing policy of the Bank that its operating capital, as we have already seen in the preceding pages, shows a gradual fall since the middle of 1920. This decline had, in the summer of 1922, reached such a level that the Bank felt justified, particularly in view of the position of the money market, in making a further reduction in its rates. We have seen that the charges for loans on securities and for advances in current account were lowered by 1 per cent on June 22 of that year, while on July 18 immediately following, the tariff was lessened all round by a further ½ per cent.[22]

SECTION 2.

Other Banks, 1914-1922.

In the foregoing section we have seen that the transactions of the Netherlands Bank of Issue attained an unprecedented volume during the period under review. The same can be said with respect to the other large banks in the Netherlands to which we will devote our attention for a moment. Before supporting this statement with figures, however, we wish to make a few brief remarks on the organization of banking business in general in the Netherlands.[23]

[22] *Cf.* on the rationing policy Dr. G. Vissering, *Introduction to the Discussions at the International Financial Conference of Brussels on the Subject of Currency and Exchanges* (Brussels, 1920), pp. 33 *sqq.; Politique de banque depuis l'armistice* (Liège, 1921); and *Divers aspects des questions bancaires aux Pays-Bas,* in the *Revue Économique internationale* of June, 1922.

[23] In order to avoid misunderstanding we wish to state explicitly here that we shall in this section touch only upon the general banks. A review of the special banks, such as Mortgage Banks, Farmers' Banks, Dealers' Banks, etc., falls outside the scope of these chapters. Whenever banking is referred to in this section, general banking business only is meant.

In the Netherlands, just as in former times trade and industry were, as a rule, practised only by undertakings of small or moderate capacity, so banking was, for a long period, mostly in the hands of little or medium-sized firms. Even at the commencement of this century, the banking business was carried on by a comparatively large number of banks and bankers, the great majority absolutely independent of each other; and among them there was no concern of an importance comparable with that of the large English or German houses. Apart from the Bank of Issue and the Netherlands Trading Company, which dates from 1824 and which, as its name indicates, was originally a trading concern that has devoted itself to banking only during the last quarter of a century, there was in the Netherlands up to the year 1910 only one bank with a paid-up capital of more than 10 million guilders, namely, the Twentsche Bankvereeniging, founded in 1861, and at that time possessing a capital of 15 million guilders. Further, there were two with a capital of 8 million guilders each, the Amsterdamsche Bank and the Incasso-Bank; one capitalized at 7.5 million guilders, the Rotterdamsche Bank; and another with a capital of 6 million guilders, Labouchere, Oyens and Company's Bank. The rest operated with much smaller funds; and in 1910 there were in all about eighty-four independent lesser firms, possessing an aggregate capital of 20,864,000 guilders, or an average of 249,000 guilders for each bank.[24] With regard to the private bankers, or "stock and share dealers" (*commissionairs in effecten*) as they are called in the Netherlands, no accurate information is available, though their number in 1910 must have been well over 800.[25]

This was, briefly, the structure of banking in the Netherlands in the year 1910. Since then radical changes have taken place in this respect. In analogy with the trend during the seventies of the last century in England and during the nineties in Germany, a strong tendency towards concentration became apparent in Netherlands banking: the business was more and more centralized in the hands

[24] *Cf.* C. Eisfeld, *Das niederländische Bankwesen* (The Hague, 1916), I, p. 96.

[25] *See* Eisfeld, p. 108. In Volume II of his work (pp. 31, 32) he gives a list of about seventy of the principal of these private bankers. On the large number of banks in the Netherlands *see also* Dr. G. Vissering, *Het oude en het moderne giroverkeer* (Amsterdam, 1908), p. 69.

of a comparatively small number of larger banks or groups of banks, while the smaller banks and the private bankers gradually disappeared as independent units.

It would take us beyond the limits of our narrative to describe this process in detail. It will be sufficient to note that it commenced with the amalgamation, in the year 1911, of the Rotterdamsche Bank with the Deposito- en Administratie-bank (a smaller Rotterdam concern dating from the year 1900) into the Rotterdamsche Bankvereeniging; and that, within a few years, it assumed such proportions that, at present, most of the banks belong to one of the five large groups formed during this period. At the head of these are the Rotterdamsche Bankvereeniging already mentioned, the Twentsche Bank,[26] the Netherlands Trading Society, the Amsterdamsche Bank, and the Incasso-Bank.[27] These are generally referred to in the Netherlands as the *grootbanken*, or "leading banks," and it is chiefly upon these five that we wish to focus our attention in this section.

Before doing so, however, we must mention one more fact. Reference has just been made to groups of banks. This is due to the fact that, so far, the bank concentration in the Netherlands has only partly assumed the form of a fusion, with the consequent establishment of a particular bank's own branches. Up to the present time, the larger houses, while gradually extending their power, have, as a rule, preferred to allow the smaller concerns which they absorbed, or in which they acquired a predominating interest, to continue their existence as separate banks, as far as the form was concerned. At the same time they also established subsidiary organizations in which a number of smaller concerns were incorporated as branches, although these banks were likewise given the appearance of separate concerns. Thus the banking concentration in the Netherlands mostly took place by way of the formation of groups of banks, each more or less controlled by one dominant concern, a condition which naturally renders it more difficult for the outsider to distinguish its extent. The development of the concentrating houses can be seen only partly from their balance-sheets, and their figures inadequately

[26] Formed from the Twentsche Bankvereeniging, which was converted from a limited partnership to a limited company in 1916.

[27] The Labouchere, Oyens and Company's Bank already mentioned was absorbed by the Rotterdamsche Bankvereeniging in the year 1913.

reproduce their actual dominating position. This should be constantly kept in mind when reading the following pages.

We shall now give some statistics relating to the position of the principal banks in the Netherlands in the years 1914-1922. Besides the five concerns above mentioned, we have included in our tables two other banks which could be considered as belonging to the "leading" banks during a large part of the period under discussion, namely, the Bank-Associatie, which was formed in 1918 by the fusion of the private firm of Wertheim and Gompertz, dating from 1834, and the Credietvereeniging, founded in 1853; and Marx and Company's Bank, which was formed from the firm of Marx and Company at Rotterdam, established in 1896. That we have not mentioned either of these before is due to the fact that they have since lost their position of "leading" banks in consequence of the general depression which set in during the autumn of 1920. Marx and Company's Bank was obliged to go into liquidation in the beginning of 1922, while the Bank-Associatie had to be transformed entirely, with the assistance of a syndicate of bankers formed for the purpose under the direction of the Bank of Issue. In the course of this reorganization its shares were reduced to 30 per cent of their nominal value.

The tables given on page 76 show the changes during and after the War in the amounts of the paid-up capital and reserve funds of the seven banks there mentioned. For the sake of convenience, Table A records the capital and reserve funds of each institution in one total, while Table B lists these separately. To permit of comparison with pre-war conditions, the figures for 1913 are included in the tables. A glance at these statistics is sufficient to show the remarkable increase in the capital and reserve funds of the larger banks in the Netherlands during this decade. The aggregate capital of the five larger banks, which was barely 113 million guilders on December 31, 1913, had been increased to 190 million guilders at the termination of the War; and two years later, at the end of 1920, the total had even reached 270.5 million guilders. For the seven banks together these amounts were 116.2 million guilders, 210.4 million guilders, and 300 million guilders, respectively. Roughly speaking, therefore, it may be said that the paid-up capital of the principal banks in the Netherlands during and after the War increased by a total of almost 160 per cent. The reserves show, com-

PAID-UP CAPITAL AND RESERVE FUNDS OF THE PRINCIPAL BANKS IN THE NETHERLANDS, 1913-1922*

(in millions of guilders) **B**

	1913		*1914*		*1915*		*1916*		*1917*		*1918*		*1919*		*1920*		*1921*		*1922*	
	Cap.	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*	*Cap.*	*Res.*
Amsterdamsche Bank	15.	8.9	15.	9.6	15.	10.2	24.2	17.2	29.2	21.	34.4	24.4	44.5	32.2	55.	40.9	55.	43.	55.	43.5
Incasso-Bank	8.	1.2	8.	1.3	8.	1.3	8.	1.3	12.	1.9	14.	2.2	20.	3.7	25.	4.6	25.	5.	25.	5.4
Netherlands Trading Society	45.	8.2	50.	11.4	50.	11.8	60.	22.4	60.	24.6	70.	29.8	80.	39.7	80.	54.6	80.	51.6	80.	42.1
Rotterdamsche Bankvereeniging	30.	7.7	30.	7.8	32.	8.6	40.	11.3	50.	15.	50.	16.	75.	25.	75.	30.	75.	35.8	75.	36.5
Twentsche Bank†	15.2	6.2	15.3	6.7	15.4	6.7	15.2	6.	20.1	14.	22.	13.9	33.	15.2	35.5	18.4	35.5	18.9	35.5	17.9
Total: five Banks	113.2	32.2	118.3	36.8	120.4	38.6	147.4	58.2	171.3	76.5	190.4	86.3	252.5	115.8	270.5	148.5	270.5	154.3	270.5	145.4
Bank-Associatie	..	..	..	..	..	..	..	..	..	..	10.	1.5	17.5	1.8	17.5	2.	13.9	2.2	7.8	8.5
Marx and Company's Bank	3.	0.3	3.	0.3	3.	0.3	6.	0.9	8.	1.5	10.	2.1	12.	3.5	12.	4.2	12.	..	..	..
Total: seven Banks	116.2	32.5	121.3	37.1	123.4	38.9	153.4	59.1	179.3	78.	210.4	89.9	282.	121.1	300.	154.7	296.4	156.5	278.3	153.9

PAID-UP CAPITAL AND RESERVE FUNDS OF THE PRINCIPAL BANKS IN THE NETHERLANDS, 1913-1922*

(in millions of guilders) **A**

	1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
Amsterdamsche Bank	23.9	24.6	25.2	41.4	50.2	58.8	76.7	95.9	98.	98.5
Incasso-Bank	9.2	9.3	9.3	9.3	13.9	16.2	23.7	29.6	30.	30.4
Netherlands Trading Society	53.2	61.4	61.8	82.4	84.6	99.8	119.7	134.6	131.6	122.1
Rotterdamsche Bankvereeniging	37.7	37.8	40.6	51.3	65.	66.	100.	105.	110.8	111.5
Twentsche Bank†	21.4	22.	22.1	21.2	34.1	35.9	48.2	53.9	54.4	53.4
Total: five Banks	145.4	155.1	159.	205.6	247.8	276.7	368.3	419.	424.8	415.9
Bank-Associatie	..	..	..	..	..	11.5	19.3	19.5	16.1	16.3
Marx and Company's Bank	3.3	3.3	3.3	6.9	9.5	12.1	15.5	16.2	12.	..
Total: seven Banks	148.7	158.4	162.3	212.5	257.3	300.3	403.1	454.7	452.9	432.2

* The figures are those of the last day of the year. The statistics relating to the Amsterdamsche Bank, the Incasso-Bank, the Rotterdamsche Bankvereeniging, the Bank-Associatie, and Marx and Company's Bank for the years 1913-1921 inclusive are taken from an article by J. van der Meulen (*Onze groote banken in 1921 en de voorafgaande jaren*) published in the weekly *In- en Uitvoer* of August 9 and 16, 1922. The same applies to the figures of the Twentsche Bank for the years 1917 to 1921 inclusive. All other amounts are taken from the annual reports of the individual banks.

† Before 1917: Twentsche Bankvereeniging B. W. Blijdenstein and Company.

paratively, an even greater gain. The total reserve funds of the five largest banks rose from 32.2 million guilders at the end of 1913 to 86.3 million guilders at the end of 1918, and to 154.3 million guilders at the end of 1921; for the seven banks together these figures were 32.5 million guilders at the end of 1913, 89.9 million guilders at the end of 1918, and 156.5 million guilders at the end of 1921, which meant a total augmentation during and after the War of 124 million guilders, or more than 380 per cent. The gain in capital and reserve funds taken all together was 306 million guilders, or nearly 206 per cent. On looking more closely into the tables on page 76 it appears that the greater part of the upward movement both in capital and reserve funds took place during the years from 1916 to 1920, inclusive. In 1914 and 1915 only a very small increase is observed, while the years 1921 and 1922 show a certain stability in the amount of capital and reserve funds. The greatest rise is seen in 1919; in that year alone the total paid-up capital and reserve funds of the seven banks showed an increment of upwards of 100 million guilders, or more than 33 per cent.

The movements in the figures relating to the credit balance liabilities to customers of these banks during the period under review are no less remarkable, as will be seen from the following table:

CUSTOMERS' CREDIT BALANCES (DEPOSIT, CURRENT, AND OTHER ACCOUNTS) WITH THE PRINCIPAL BANKS IN THE NETHERLANDS DURING 1913-1922*

(*in millions of guilders*)

	1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
ısterdamsche Bank	46.8	62.	115.7	140.7	206.4	263.7	307.4	310.8	247.5	247.
asso-Bank	18.4	13.1	20.5	28.	42.9	51.9	72.2	81.4	71.6	68.6
therlands Trading Society	85.1	89.5	101.4	131.6	202.7	268.	295.9	370.4	269.4	187.2
tterdamsche Bankvereeniging	68.7	76.6	129.	197.1	229.2	234.	394.8	363.9	270.5	222.9
entsche Bank†	68.8	76.2	82.8	108.9	144.5	190.1	184.5	237.3	212.9	210.7
Total: five banks	287.8	317.4	449.4	606.3	825.7	1,007.7	1,254.8	1,363.8	1,071.9	936.4
ık-Associatie	..	..	..	..	..	36.4	52.4	58.9	34.7	12.5
rx and Company's Bank	5.3	7.	15.8	28.4	29.8	33.5	39.9	45.6	17.1	..
Total: seven banks	293.1	324.4	465.2	634.7	855.5	1,077.6	1,347.1	1,468.3	1,123.7	948.9

* The figures are those of the last day of the year. For the sources *see* p. 76, note *.

† Before 1917, Twentsche Bankvereeniging B. W. Blijdenstein and Company.

This table shows that at the end of 1913 the total amount of the credit balance liabilities to customers of the five principal banks was just under 288 million guilders. Three years later, this figure had been more than doubled; at the end of 1918 it had passed 1,000 million guilders; and on the last day of 1920, it was almost 1,364 million guilders. For the seven banks together this amount even exceeded 1,468 million guilders, which, as compared with pre-war conditions, meant an advance of 1,175 million guilders, or more than 400 per cent. A closer scrutiny of the table proves that this enormous gain took place chiefly in the years 1917 to 1919, and that of these three 1919 again ranked first. In this year alone, the customers' credit balances with the banks here under consideration increased by 269 million guilders, or 25 per cent. During the last two years given in the return, a remarkable decline in the customers' credit balances is to be observed. From 1,468 million guilders at the end of 1920 they dropped to 1,124 million guilders at the end of 1921, and to 949 million guilders at the end of 1922. This canceled to a considerable extent (44 per cent) the increase of the seven preceding years and reduced the total amount of the credit balance liabilities to customers of the leading banks collectively to less than the figure at which it had stood at the end of 1918. Of this diminution of more than 519 million guilders, 345 million guilders, or well over 66 per cent, took place in the year 1921.

The following table shows the volume of credit granted by the banks under discussion during and after the War.

CREDITS GRANTED BY THE PRINCIPAL BANKS IN THE NETHERLANDS, 1913-1922*

(As shown on the balance-sheets under the headings of bills discounted, advances, and debtors)

(*in millions of guilders*)

	1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*
ısterdamsche Bank	67.5	72.7	117.8	157.6	223.4	279.4	349.9	401.2	323.3	276.9
asso-Bank	34.3	22.9	31.4	34.8	54.7	69.5	102.8	116.1	96.9	93.6
therlands Trading Society	84.4	86.2	107.5	170.9	237.4	306.5	380.0	475.6	340.6	254.5
tterdamsche Bankvereeniging	93.2	91.4	138.8	208.2	278.0	260.6	411.4	397.0	360.2	302.1
entsche Bank†	88.5	98.2	94.5	118.0	129.7	169.8	176.9	239.4	206.7	194.6
Total: five banks	367.9	371.4	490.0	689.5	923.2	1,085.8	1,421.0	1,629.3	1,327.7	1,121.7
nk-Associatie	..	..	..	..	..	44.1	72.8	79.8	53.0	25.9
rx and Company's Bank	9.4	10.5	16.6	25.6	35.4	45.0	62.0	66.6	29.5	..
Total: seven banks	377.3	381.9	506.6	715.1	958.6	1,174.9	1,555.8	1,775.7	1,410.2	1,147.6

* The figures are those of the last day of the year. For the sources *see* p. 76, note *.

† Before 1917, Twentsche Bankvereeniging B. W. Blijdenstein and Company.

It will be observed that the figures in this table show in the main the same changes as those of the customers' credit balances. The amount of credits granted also exhibits an enormous increase during the years 1914 to 1920. For the five principal banks collectively this rose from about 368 million guilders at the end of 1913 to approximately 690 million guilders at the end of 1916, to 1,086 million guilders at the end of 1918, and to 1,629 million guilders at the end of 1920. For the seven banks collectively these amounts were as follows: 377 million guilders (1913), 715 million guilders (1916), 1,175 million guilders (1918), and 1,776 million guilders (1920). The total advance was, therefore, 1,398 million guilders, or more than 370 per cent of the pre-war figure. As was also the case with the customers' credit balances, the greatest increase took place during the years 1917 to 1919, and of these three 1919 was again easily first. In that year alone, the amount of credits granted by the seven banks collectively rose by 381 million guilders, or more than 32 per cent. The years 1921 and 1922 then show a sharp decline. From 1,776 million guilders at the end of 1920 the total amount of credits granted fell to 1,410 million guilders at the end of 1921, and to 1,148 million guilders at the end of 1922. This decrease of upwards of 628 million guilders reduced the credits granted to less

than the figure for 1918, and, precisely as in the case of the customers' credit balances, the greater part of this diminution—365 million guilders, or 58 per cent—took place during 1921.

The interpretation of these phenomena as observed from the three foregoing tables will, after our description, present few difficulties. The unparalleled extension in the volume of operations of the banks under discussion during the years 1914 to 1920 is, to a certain extent, no doubt to be attributed to the further progress of the concentration movement which started in 1911. We have, however, pointed out that the progress of this trend was only partly reflected in the balance-sheets of the banks which pursued the policy in question. It would, therefore, certainly be wrong to explain the extension of the operations exclusively, or even largely, on the grounds of this tendency. Side by side with the concentration there were various other factors, certainly no less important, which worked towards this end.

For instance, the great increase in the customers' credit balances, and, therefore, indirectly the expansion in the paid-up capital and reserve funds of the banks, were largely due to the fact that it became more customary in the Netherlands to deposit available funds with the banks during the period under review. Before the War, this system had never been adopted to any great extent. In the Netherlands, in contrast with what was being done in other countries in this respect, it was usual, as has already been mentioned, for persons or firms having surplus cash on hand to invest these temporarily available means in prolongation or monthly loans on the Stock Exchange. The result was that the banks had only very modest deposits at their disposal, a fact which naturally impeded their development. In this regard, a change has, however, set in since 1914. The closing of the Stock Exchange in July of that year clearly revealed the drawbacks of the prolongation system for the lenders,[28] and rendered many of them averse to further investment of resources in this manner. The immediate consequence was that funds available for temporary investment found their way to the banks far more than formerly, so that the deposits gradually increased.

This augmentation was further stimulated considerably by two

[28] See *supra*, p. 5.

other factors, namely, by the remarkable abundance of money which prevailed in the Netherlands during the War and by the influx of foreign balances which characterized the first few years after its close. These two phenomena have been described in detail in the preceding chapter and, therefore, need receive only brief allusion here. As we have seen, the plentiful supply of money was a direct result of the War which had made the Netherlands the creditor of foreign countries to a far greater extent than she had been before, and had led to the importation of considerable amounts of yellow metal. Generally speaking, this abundance was only for short term credits, and, consequently, it was only natural, under the prevailing circumstances, that it should lead to a considerable augmentation of deposits in the banks.[29] The influx of foreign balances was the direct consequence of the dislocation of the currencies of various areas in central and eastern Europe, particularly in Germany, which induced the public there to transfer a greater or smaller portion of their possessions to other countries, including the Netherlands. In so far as the owners of these funds desired to invest them, they wished to do so for short terms only, and there is, therefore, no doubt that this influx of foreign balances was also largely responsible for the increase in the volume of the deposits of the banks. In its turn this increase in deposits induced the banks to augment their capital and, seeing that they could usually issue fresh shares at a premium, the amount of which was as a rule added to the reserve funds, the expansion in the paid-up capital of the banks was automatically accompanied by a gain in their reserve funds.

The shrinkage in the customers' credit balances during 1921 and 1922 was naturally due to the grave depression in trade and industry which prevailed during this period and to which allusion has been made elsewhere.

Finally, the increase in the amounts of credits granted during the years 1914 to 1920 naturally also indicates a greatly augmented demand for bankers' credit. This phenomenon was likewise due to several causes. In another connection we have already referred to the large credits which the Netherlands were obliged to grant to foreign countries, especially during the latter part of the War, to ensure

[29] During 1916 the offer of deposits was actually so great that the banks, although as a rule they paid only a very small interest on such money, were repeatedly obliged to refuse large amounts.

maintenance of the export trade at least to some extent.[30] Two other factors must, however, also be mentioned here as having in no slight measure encouraged this demand—the growing industrialization of the Netherlands during and after the War, and the development of the acceptance business.

Owing to a number of causes which need not be enumerated here, it was only during the last few years immediately preceding the conflict that industry proper began to assume dimensions of importance in the Netherlands, and it was not until then that the banks commenced to take any considerable interest in industry by granting credits and issuing securities. The War considerably accelerated this process. It placed Netherlands industry, at least in so far as it did not suffer too greatly from shortage of raw materials, in a position which was comparatively very favorable. Foreign competition had almost disappeared, the demand for home-manufactured products increased, and the rising prices led to a fairly wide extension of factories and plants. At the same time, many new concerns were established to produce commodities which formerly had been imported from abroad, but of which the importation had ceased owing to the War. All these circumstances considerably increased the need for industrial credits; and the ties which had been formed between industry and banking during the years immediately preceding the War naturally caused this augmented demand to direct itself, in the first place, to the banks.

The acceptance business was not unknown in the Netherlands before the War, but it was of very slight importance. Its golden period had been the seventeenth and part of the eighteenth century, when the Netherlands guilder enjoyed a reputation far beyond the country's frontiers, and when a large proportion of the world's trade was financed through Amsterdam. This had, however, undergone alteration since the end of the eighteenth century; the guilder had gradually fallen into disuse as an international unit of account, and the Netherlands acceptance business had shrunk to very modest dimensions. Before the War, it was practically limited to the tobacco trade.[31] Since 1914, however, certain changes have taken place in this respect. The comparative stability in value which the Nether-

[30] *See* pp. 27, 28.

[31] *See* the article *Onze discontomarkt* in the weekly *Economisch-Statistische Berichten* of November 1, 1916.

lands guilder has enjoyed during and since the War has brought the guilder bill once more to the fore in international trade and has given rise to a certain inclination to finance *via* the Netherlands and in guilders various transactions which before the War used to be done through London and in sterling. Acceptance business thus again began to develop in the Netherlands though only on a modest scale according to modern ideas. Exact figures of this evolution are, of course, not available; but to enable the reader to form an idea of its importance it may be stated that about the middle of 1921 reliable authorities estimated the total annual amount of bills drawn or accepted in the Netherlands for foreign account at upwards of 500 million guilders, as compared with 25 million guilders at the end of December, 1913.[32]

During the period in question an entirely fresh field of operations was thus opened to the leading Netherlands banks in more than one respect. Since, on the other hand, their funds considerably increased at the same time, while their position was greatly strengthened by the concentration movement, it is not astonishing that they made use of the opportunity and that their credits grew from day to day, particularly between 1914 and 1920. The reaction which then set in was due to the general depression in trade which commenced in the latter half of 1920.

[32] *Cf.* Dr. P. J. C. Tetrode. *De Hollandsche Gulden in het Internationaal Verkeer,* in the weekly *In- en Uitvoer* of August 24, 1921.

CHAPTER III

THE FOREIGN EXCHANGES

SECTION 1.

Course of the principal rates of exchange at Amsterdam from 1914 to 1922.

It goes without saying that in the following pages we shall not attempt to give a detailed review of the numerous influences which have affected the rates of exchange at Amsterdam from day to day since the outbreak of the War. Such an enterprise would necessitate a minute description of a number of events which took place during this period, not only in the general economic and financial sphere, but also in the political and military field, a description which could be contained only in a ponderous volume and could not possibly be compressed within the narrow limits of this section. We shall, therefore, restrict ourselves to a brief review of the main fluctuations in the principal rates of exchange and their most conspicuous causes.

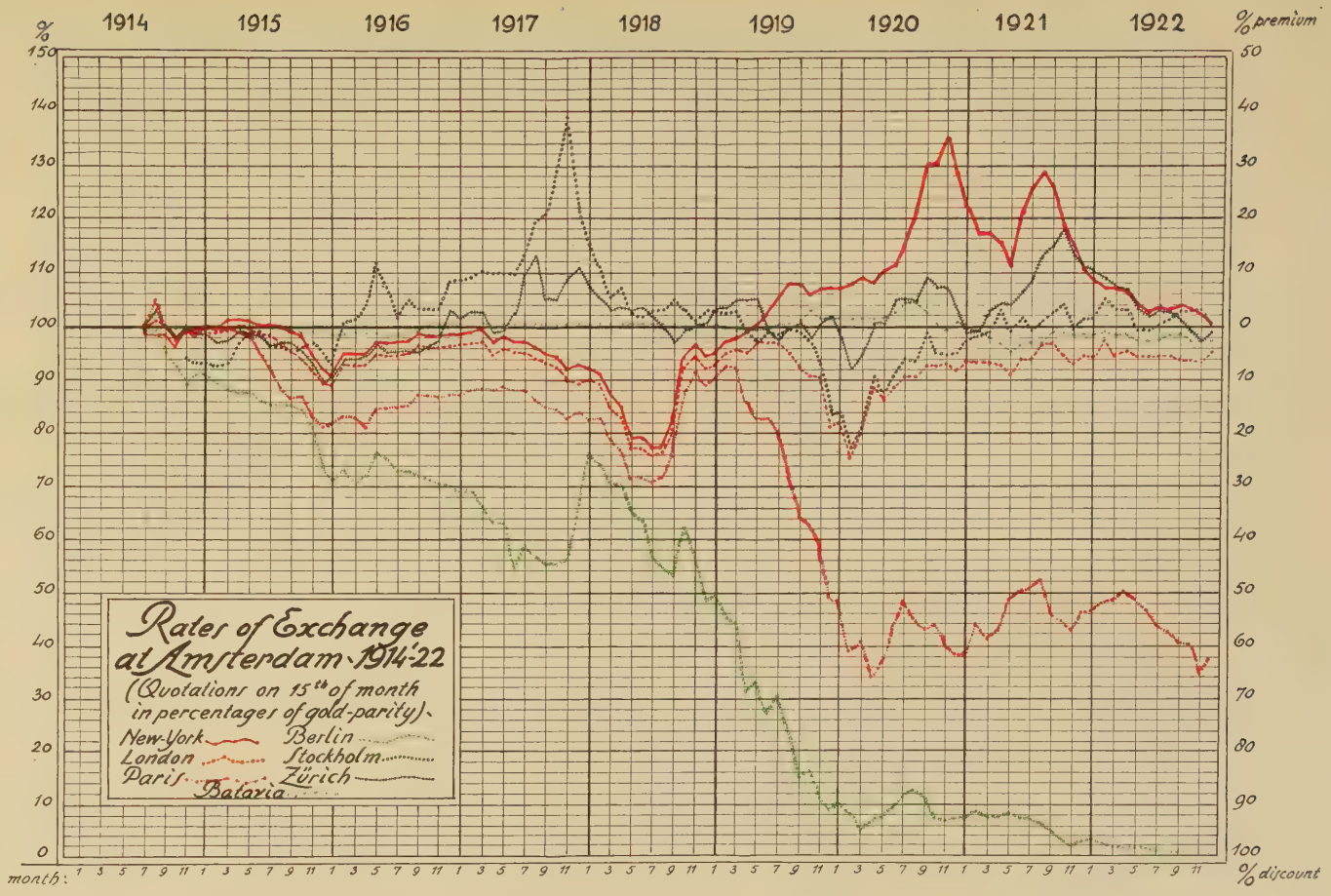
The course of these rates at Amsterdam during the period between July, 1914, and December, 1922, is shown by the following table and from the chart opposite page 84, which has been prepared from this table.

PRINCIPAL RATES OF EXCHANGE AT AMSTERDAM
JULY 1914 TO DECEMBER 1922

(Quotations as recorded on the 15th of each month or as near that date as possible)*

	London	*Paris*	*Berlin*	*New York*	*Stockholm*	*Switzerland*	*Batavia*
			Parity of Exchange:				
	£1	*Fr. 100*	*Rm. 100*	*$100*	*Kr. 100*	*Fr. 100*	*100 glds.*
	is	*is*	*is*	*is*	*is*	*is*	*N.I. is 100*
	12.10 glds.	*48 glds.*	*59.26 glds.*	*248.79 glds.*	*66.67 glds.*	*48 glds.*	*glds. Neth.*
1914							
July	12.12⅜	48.14	59.14½	2.48½	66.42½	48.12	100¼
August	12.25	50.50	59.10	2.45	....	49.50	100
September	12.15	48.00	56.60	2.44¼	....	48.00	100

* The majority of the figures are taken from the *Annual Reports* of the Netherlands Bank for the years 1914 to 1923 (English edition). A number of quotations not given in these reports were drawn from F. Schoepp, *De Wisselkoersen* (Groningen, 1916), and from the weekly *Economisch-Statistische Berichten.*


%
1914
1915
1916
1917
1918
1919
1920
1921
1922
% premium
% discount
month:
Rates of Exchange at Amsterdam 1914-22
(Quotations on 15th of month in percentages of gold-parity)
New-York
London
Paris
Batavia
Berlin
Stockholm
Zürich

	London	*Paris*	*Berlin*	*New York*	*Stockholm*	*Switzerland*	*Batavia*
			Parity of Exchange:				
	£1 is 12.10 glds.	*Fr. 100 is 48 glds.*	*Rm. 100 is 59.26 glds.*	*$100 is 248.79 glds.*	*Kr. 100 is 66.67 glds.*	*Fr. 100 is 48 glds.*	*100 glds. N.I. is 100 glds. Neth.*
1914 (cont.)							
October	11.85	47.00	54.75	2.39⅛	....	47.00	100
November	11.99	47.75	52.50	2.45⅜	62.75	47.50	100
December	11.96	47.75	54.10	2.45⅜	62.30	47.25	100
1915							
January	12.05	48.00	54.30	2.49½	62.25	47.25	100
February	12.03	47.85	53.00	2.49⅝	61.60	46.45	100
March	12.09	47.70	52.15	2.51¾	62.00	46.85	99¾
April	12.15¾	47.67½	51.80	2.53¼	64.75	47.70	100
May	12.11	47.32½	52.01	2.52	65.75	47.62½	100¼
June	11.95	45.95	51.17½	2.49¾	66.19	47.10	100¼
July	11.91¾	44.37½	50.68¾	2.49½	64.12	46.30	100
August	11.75¼	42.35	50.53¾	2.48¾	64.25	46.47½	100
September	11.57¾	41.65	50.52¾	2.47	63.87	46.40	99¼
October	11.44¼	41.83¾	50.06¼	2.44 9/16	64.00	45.85	99
November	11.14	40.18¾	48.03¼	2.38	64.50	44.50	99
December	10.85	39.17½	43.56¼	2.29	63.75	43.00	99
1916							
January	10.76½	38.65	42.05	2.25¾	62.30	43.50	98½
February	11.27	40.17½	43.57½	2.35¾	66.85	45.10	98½
March	11.28½	39.87½	41.71¼	2.36⅝	67.67½	45.10	98¾
April	11.28¼	39.00	42.66½	2.36⅜	69.35	45.30	98¾
May	11.50½	40.62½	45.11¼	2.41⅛	74.60	46.30	98¾
June	11.46	40.71¼	44.30½	2.40¼	71.35	45.77½	98½
July	11.48⅛	40.78¾	43.16¼	2.41⅛	67.80	45.47½	98⅝
August	11.54⅜	41.02½	42.93¾	2.42 7/16	69.35	45.69	98⅝
September	11.68⅞	41.97½	42.66¼	2.45⅜	69.00	45.87½	99¾
October	11.64⅞	41.93¾	42.31¼	2.44 5/16	68.90	46.35	100⅛
November	11.63¼	41.87½	41.76¼	2.44 5/16	68.85	46.75	100⅛
December	11.66 15/16	42.03¾	41.47½	2.45 7/16	72.05	49.40	100⅛
1917							
January	11.68⅞	42.06¼	40.83¾	2.45 5/16	72.25	48.70	100⅛
February	11.75	42.27½	40.93¾	2.46½	72.88¾	49.17½	100⅛
March	11.81½	42.42½	39.20	2.48	73.37½	49.25	100⅛
April	11.50	42.32½	37.45	2.42	73.30	47.35	100⅛
May	11.62	42.68¾	37.43¾	2.44	73.17½	47.85	100⅛
June	11.56⅜	42.27½	32.12½	2.42¾	73.25	49.00	100⅛
July	11.54¾	42.27½	34.72½	2.42½	75.35	52.75	100⅛
August	11.38¾	41.46¼	33.49½	2.39 7/16	79.25	54.10	100⅛
September	11.31⅞	41.06¼	32.73¾	2.37⅝	80.42½	50.30	100⅛
October	11.17½	40.60	32.44¾	2.34½	85.82½	50.20	100⅛
November	10.91¼	39.85	33.13¾	2.28¾	92.25	52.05	100⅛
December	10.87½	40.35	40.22½	2.32	81.00	53.25	100⅛
1918							
January	10.92½	40.05	45.03¾	2.29½	76.57½	51.40	100⅛
February	10.81	39.85	43.87½	2.27	74.75	50.85	100⅛
March	10.36¼	37.92½	41.47½	2.17¼	70.55	49.45	100⅛
April	10.01	36.95	41.67½	2.10½	71.45	49.67½	100⅛

	London	*Paris*	*Berlin*	*New York*	*Stockholm*	*Switzerland*	*Batavia*
			Parity of Exchange:				
	£1	*Fr. 100*	*Rm. 100*	*$100*	*Kr. 100*	*Fr. 100*	*100 glds.*
	is	*is*	*is*	*is*	*is*	*is*	*N.I. is 100*
	12.10 glds.	*48 glds.*	*59.26 glds.*	*248.79 glds.*	*66.67 glds.*	*48 glds.*	*glds. Neth.*
1918 (cont.)							
May	9.37⅜	34.47½	38.78¾	1.95⅛	68.05	49.27½	100⅛
June	9.36¼	34.52½	37.82½	1.96⅛	67.80	49.82½	100⅛
July	9.19½	33.95	33.80	1.92 1/16	68.52½	48.90	100⅛
August	9.24½	34.52½	32.23¾	1.93⅛	68.65	47.92½	100⅛
September	9.80½	37.50	31.51¼	2.05¾	69.75	46.57½	100⅛
October	11.18¼	42.37½	36.75	2.34¾	68.55	47.82½	100⅛
November	11.44¾	44.15	33.47½	2.40¼	67.37½	48.00	100⅛
December	11.17	42.97½	28.75	2.34⅞	68.35	48.17½	100⅛
1919							
January	11.25⅝	43.28¾	29.47½	2.36 5/16	68.42½	49.02½	100⅛
February	11.55⅛	44.42½	26.77½	2.42⅜	68.20	49.72½	99⅞
March	11.61	44.37½	26.05	2.43⅞	68.42½	50.22½	99⅝
April	11.58⅝	41.30	18.62½	2.48 7/16	66.10	50.17½	99⅝
May	11.76⅝	39.70	19.42½	2.51⅛	64.82½	50.42½	99⅝
June	11.77⅜	39.75	16.12½	2.54⅝	65.95	47.77½	99⅝
July	11.75¼	38.25	17.95	2.63¼	65.57½	47.00	100⅛
August	11.59¾	34.42½	13.97½	2.68⅜	66.45	47.97½	100⅛
September	11.18⅜	30.80	8.85	2.68⅝	65.95	48.30	101
October	11.03⅞	30.15	9.50	2.63 11/16	64.25	46.97½	103½
November	10.97⅝	27.65	6.47½	2.65 15/16	61.75	48.27½	101¾
December	9.89¾	23.77½	5.36¼	2.66½	55.87½	48.90	101¾
1920							
January	9.92¾	23.42½	4.78⅝	2.66¼	56.02½	47.27½	101¾
February	9.19¼	19.05	2.70	2.68¾	51.20	44.20	101¾
March	9.87½	19.75	3.83¾	2.72	54.37½	45.55	101¾
April	10.71¼	16.47½	4.46¼	2.69⅝	60.25	48.25	101¾
May	10.49½	18.02½	5.62½	2.74½	57.85	48.25	101¾
June	10.73¾	21.12½	6.78¾	2.77⅞	60.30	50.30	102½
July	11.06	23.52½	7.28¾	2.85½	62.70	50.50	104⅛
August	10.98½	21.97½	6.51¼	3.02⅝	62.60	50.20	104⅛
September	11.25	21.01¼	5.34½	3.23¾	65.90	52.32½	102½
October	11.24 9/16	21.11¾	4.58¾	3.23⅞	63.50	51.45	100⅛
November	11.34	19.45¾	4.07¾	3.36	62.97½	51.31¾	99¾
December	11.19¾	18.96¼	4.35	3.21⅝	63.15	49.65	101
1921							
January	11.37⅛	18.55	4.54	3.04⅝	65.00	47.51¼	100
February	11.34½	21.23¼	4.88¾	2.90 7/16	65.37½	47.90	99⅞
March	11.35 1/16	20.10¾	4.60	2.90⅞	65.85	49.32½	98
April	11.29⅛	20.58¾	4.59	2.88¼	68.85	49.97½	96½
May	11.10½	23.67½	4.81¼	2.77⅝	66.10	49.90	95½
June	11.39¾	24.30	4.34⅜	3.02 5/16	67.85	50.92½	96¼
July	11.39½	24.53¾	4.20½	3.13½	66.42½	51.82½	97
August	11.76⅝	25.13	3.76¼	3.21	67.45	54.25	97
September	11.80	22.21	2.90	3.19¼	68.65	54.85	99⅛
October	11.50½	21.60	2.02½	2.95½	69.40	56.60	99
November	11.35⅝	20.83¾	1.08¾	2.86½	66.45	54.11¾	98¼
December	11.51⅝	22.26¼	1.51	2.74⅝	67.60	53.50	98½

	London	*Paris*	*Berlin*	*New York*	*Stockholm*	*Switzerland*	*Batavia*
	Parity of Exchange:						
	£1	*Fr. 100*	*Rm. 100*	*$100*	*Kr. 100*	*Fr. 100*	*100 glds.*
	is	*is*	*is*	*is*	*is*	*is*	*N.I. is 100*
	12.10 glds.	*48 glds.*	*59.26 glds.*	*248.79 glds.*	*66.67 glds.*	*48 glds.*	*glds. Neth.*
1922							
January	11.48¾	22.30	1.50½	2.71⅛	67.75	52.80	98¾
February	11.68⅜	23.18¼	1.33½	2.67⅜	70.05	52.25	99
March	11.51¾	23.80	0.99	2.66 5/16	68.85	51.65	98¼
April	11.62¾	24.40	0.87⅜	2.63⅛	68.65	51.25	98⅝
May	11.51	23.66	0.90½	2.58½	66.40	49.55	97⅝
June	11.49½	22.67½	0.82½	2.56¾	66.55	48.92½	97¾
July	11.46	21.11¾	0.55¾	2.58	66.70	49.45	97⅝
August	11.49½	20.42½	0.25	2.57¾	67.60	49.05	98⅛
September	11.43¾	19.70	0.17½	2.58⅜	68.30	48.45	98¼
October	11.39¼	19.50	0.09⅜	2.57	68.55	47.60	97⅝
November	11.36¾	16.92½	0.0342½	2.54½	68.45	46.80	97⅜
December	11.60	18.25	0.0338¾	2.50⅛	67.20	47.42½	97 11/16

In considering these statistics it is advisable to draw a distinction between two periods, namely:

(a) that from July, 1914, to December, 1918, corresponding roughly with the duration of the War; and (b) that since January, 1919.

(a) It will be seen that, except in the first few weeks of the War, the rates of exchange of the belligerent countries were almost constantly in favor of Amsterdam during these years, and that their movements, although not always in the same direction, showed, on the whole, a distinct downward tendency. When comparing the course of the various exchanges with each other, as may readily be done by examining the chart opposite page 84, it will also be evident that Berlin has shown by far the greatest fall. Immediately after the outbreak of hostilities, the quotation of the German mark began to drop considerably, and this process was, in fact, only once interrupted by a reaction of any consequence. In the winter of 1917-1918, German exchange rose for a short time from 45 to about 76 per cent of its value before the War; but after that it continued its downward course, and at the time of the armistice it had again fallen to about 56 per cent of its pre-war value. In the movements of the exchanges of the Allied and Associated Powers, the remarkable parallelism which characterized their fluctuation after the early part of 1916 immediately attracts attention. Sterling was, however, almost invariably at a lower level than the dollar, while the franc nearly always fluctuated much below the British pound. It will be

seen that, generally speaking, the franc, and particularly the pound and the dollar, have from the very first declined at a much slower rate than the German mark. Their fall was, moreover, interrupted in 1916 by a reaction which lasted for more than a year. The downward movement was then resumed and continued for the remaining months of 1917 and during the first half of 1918. The last months of the War once more brought about a powerful reaction, with the result that, at the time of the armistice, the rates of exchange on New York, London, and Paris only showed a discount of about 4, 6, and 8 per cent, respectively, as compared with their gold parity.

Among the foremost causes of these exchange fluctuations we must in the first place mention the grave depreciation of the currencies of the belligerents during the War. This decline accounts for a considerable part of the fall in the various exchanges. It is known that the degree in which money fell in the countries in question was very divergent, and this difference in the extent of the depreciation was, no doubt, largely responsible for the variation in the level at which the exchanges fluctuated during this period.

The position of the balance of payments of the belligerent areas must be mentioned as the second cause of the fall in the rates of exchange on these countries. We may here refer to what has been stated on this point in a previous chapter, where we saw that the War had led to a considerable increase in the liabilities of foreign powers to the Netherlands. This naturally influenced the rates of exchange at Amsterdam in a direction favorable to the Netherlands, and it may, therefore, certainly be said that a part of the decline exhibited by these exchanges during the War was due to the fact that the balance of payments with the belligerent countries was almost invariably in the Netherlands' favor throughout these years.

Apart from the two causes just mentioned, it is self-evident that the constantly varying fortune of war was also of great influence on the course of the exchanges of the belligerent powers. This factor, in all probability, explains to a great extent the rise of the German mark in the winter of 1917-1918; and the strong upward movement which the London, Paris, and New York exchanges exhibited during the last few months before the armistice was, no doubt, closely connected with the victories of Marshal Foch.

The gain in the sterling rate during 1916 was chiefly due to the granting of credits to England by the Netherlands. Owing to the

fact that, at this time, the Governments began to support the exchanges between England, the United States, and France, this rise in sterling likewise benefited indirectly the quotations for the franc and the dollar. Generally speaking, the remarkable parallelism which prevailed during the greater part of the war period in the course of the quotations on London, Paris, and New York was naturally due entirely to the artificial stabilization of the exchanges between these three centers by the respective Governments.

If we now turn to the rates of exchange on the neutral countries, it will be observed that throughout the War the Swiss rate fluctuated sometimes above and sometimes below par, touching its lowest point in December, 1915, with a discount of more than 10 per cent, and finding its highest level in August, 1917, with a premium of about 13 per cent. Both the fall during the winter of 1915-1916 and the rise during the latter half of 1917 were probably due partly to temporary disturbances in the balance of payment between the Netherlands and Switzerland and partly to the action of arbitration influences.[1]

The rate of exchange on Stockholm exhibits a much more sharply defined line. Until the early part of 1916, the Swedish crown was constantly at a discount in Amsterdam; but after that the tide turned, and during the rest of the War the Swedish crown was invariably above par. In particular its rise assumed considerable proportions in 1917, and in November of that year the exchange on Stockholm even showed a premium of 38 per cent. This proved to be its zenith, however, and a rapid fall brought the Swedish exchange within a few months (in May, 1918) to a level of about 2 per cent above par. The movement of the rate of exchange on Sweden in 1916-1917 was largely attributable to the policy then pursued by the Swedish Riksbank which, as mentioned elsewhere, was virtually no longer prepared to accept gold at its pre-war price, and eventually even went so far as to refuse yellow metal altogether. Under these circumstances it became very difficult for Netherlands traders and manufacturers to pay their debts to Sweden, and this naturally

[1] The rise of the Swiss franc during the summer of 1917 was, for instance, largely to be attributed to the fact that at that time the German mark fell in Switzerland at a quicker rate than in the Netherlands. This created a strong demand for Swiss francs at Amsterdam in order to be able to purchase German marks with them in Switzerland.

had the effect of forcing the rate of exchange on Stockholm to a high figure. The temporary reaction which interrupted the rise of the Swedish crown during the summer of 1916 is easily explained by the exchange agreement which was then reached between Sweden and England, and which affected the London rate on Stockholm so much in England's favor that it became possible for the Netherlands for the time being to pay its debts to Sweden *via* London.

The course of the rates of exchange on the Netherlands East Indies was very regular during the greater part of the War and calls for no special comment.

(b) The post-war period exhibits totally different features in several respects. Owing to the constantly growing depreciation of the currency and also in part as a consequence of the reparation payments, the German mark showed a continual decline. At the beginning of 1920 exchange on Berlin was already quoted at a discount of 95 per cent. The remainder of the year 1920 brought a slight improvement, but the fall was resumed in the course of 1921 with the result that the mark practically lost its significance as an international unit of account.

The course of the rates of exchange on the three other former belligerents was much more interesting. In the month of March, 1919, government control of the rates between London, Paris, and New York was removed, and from that moment each of the three exchanges so closely allied during the greater part of the War went its own way. The French franc which, thanks to government control, had in the last few months fluctuated at a much higher level than corresponded with its actual value, immediately began to fall rapidly, also as a result of the further depreciation of the currency in France. This decline continued for a whole year and reduced the Paris exchange in April, 1920, to less than 35 per cent of its pre-war parity. Although a slight recovery subsequently took place, it was of relatively small importance and by no means permanent. During the remainder of the period under review the franc continued to fluctuate, with comparatively great oscillations, between 48 and 65 per cent below par.

The rate of exchange on London also commenced to decline considerably during 1919 until the pound was quoted at a discount of almost 25 per cent in February, 1920. A distinct rise then set in, chiefly in consequence of the strong measures taken by the Govern-

ment to restore the country's finances, which reduced the discount of the pound sterling to about 7 per cent in the course of about six months. During the years 1921 and 1922, the pound then continued to show a rising tendency, with but slight fluctuations, and at the end of 1922 the discount had been reduced to about 4 per cent.

The dollar showed a strong upward movement as soon as government control was removed. As early as May, 1919, American exchange at Amsterdam was above par, and from that date it continued to rise almost without interruption until November, 1920, when its highest point was reached with a premium of about 35 per cent. This was followed by a decline which, though interrupted for a short time by a reaction in the summer of 1921, gradually progressed so that the rate practically returned to its normal level towards the end of 1922. We shall probably not be very much mistaken if we attribute this remarkable rise in the dollar rate during the years 1919 and 1920 mainly to three factors: (1) the unfavorable condition of the Netherlands balance of payments between the Netherlands and the United States, this being chiefly due to the large imports from the States during the early post-war period; (2) the great demand from Germany for dollars, which were required for payments of the reparations bill, a fact which also exercised a powerful influence in forcing up the dollar rate in the Netherlands; and (3) the rapid and drastic deflation of currency which took place in the United States, particularly in the latter half of 1920.[2]

During this period the exchanges of Sweden and Switzerland moved sometimes above and sometimes below parity, and once more exhibited fluctuations of considerable extent. In this connection we may point to the violent fall in the rate for Swedish crowns in the winter of 1919-1920 as well as to the rise in the Swiss franc during 1920, and particularly during 1921. In the main, these variations were probably to be explained by the temporary disturbances in the equilibrium of the balance of indebtedness which repeatedly occurred during this period owing to international arbitration influences. At the end of 1922 the exchanges on Sweden and Switzerland had been restored practically to their normal level.

[2] On the movements in the dollar rate *see* the article of Dr. J. Westerman Holstijn, *De dollar op goudpariteit,* in the weekly *Economisch-Statistische Berichten* of January 10, 1923.

During the latter half of 1919, Netherlands East Indian exchange began to rise, and from October, 1919, to June, 1920, it varied with but slight fluctuations at about 2 per cent above par. In the months of July and August, 1920, the advance increased still further, and quotations of more than 4 per cent above par were recorded. The tide then turned, however. The Netherlands East Indian guilder began to decline, and in November, 1920, it was at a slight discount. In December, 1920, a certain reaction took place, but in the first few months of 1921 the drop continued further until, in May of that year, the lowest point was reached with a discount of nearly 5 per cent. The rate then recovered, and since the autumn of 1921 exchange on Batavia has moved with only slight fluctuations at about 2 per cent below par. These variations in the value of the Netherlands East Indian guilder clearly reflect the influence of the two factors which determined the course of this exchange during the period under review. The rise in 1919 and 1920 was chiefly due to the large exports from the Netherlands East Indies to the Netherlands which marked those years. The decline which then set in can in the main be explained by the remittance to the mother country of a large part of the profits earned in the colony in the form of dividends during the boom.

SECTION 2.

The foreign exchange policy of the Netherlands Bank, 1914-1922.

In connection with this necessarily very brief review of the movements in the rates of exchange at Amsterdam in the years 1914-1922, we will now devote a few words to the foreign exchange policy adopted by the Netherlands Bank during this period. Before doing so, however, we shall briefly explain how the Bank maintained the value of the Netherlands guilder in relation to foreign currencies before the War.

After the year 1875 the Netherlands possessed, as is no doubt generally known, a monetary system which formerly was frequently referred to as that of the limping standard. The basis was gold, but the peculiarity of the device was that, except for bank notes, the home circulation of money consisted almost exclusively of silver; gold coins were practically never current. This was the result of restricting the issue of gold for home use to a minimum, a policy

which had been pursued by the Netherlands Bank since 1875. The Bank could do this without difficulty, since the existing legislation permitted it to pay its bank notes in gold or in silver at its discretion. Indeed, according to the Coinage Act, the silver coins of two and one-half guilders, one guilder, and one-half guilder, as well as the ten- and five-guilder gold coins, are legal tender to any amount. Before the War, the gold value of the Netherlands currency was maintained under this system by the fact that, whenever foreign exchanges reached the specie point, the Netherlands Bank was always prepared to deliver gold for shipment abroad on the basis of the mint price and without charging any premium whatsoever. After the early nineties of the previous century the Bank, in practice, even used to go a considerable step further. As soon as a demand for remittances abroad raised the rates of exchange without, however, immediately bringing them up to the gold export point, the Bank usually began to sell cheques on foreign countries. In this manner it was often able to prevent an increase of rates to the specie point, thus rendering unnecessary the passage of gold, which otherwise would have been inevitable. In order to be in a position to issue these cheques when the exchange rose, the Bank naturally was obliged to hold assets abroad, so that it always took care to possess them, either in the form of balances with foreign correspondents or in the form of foreign bills which could immediately be converted into such balances by discounting. It may be added that the policy of the Netherlands Bank briefly described above was entirely based on tradition and was not prescribed by law. In 1903, however, it had given the Government an explicit undertaking "to maintain and continue the gold policy hitherto pursued by the Bank by continuing to keep its gold stock available for export as far as lies in its power on the basis of 1,653.44 guilders per kg. fine for bullion,[3] and at corresponding prices for gold specie, whenever the foreign exchanges should rise above gold parity."

This was the position before August, 1914. At the outbreak of the World War the pressure of circumstances forced the Bank to abandon this well-tried foreign exchange policy. In practically all neighboring countries, export of gold was immediately prohibited, and the free delivery of the yellow metal by the Banks of Issue was

[3] From 1,000 kgs. of fine gold 165,344 gold ten-guilder pieces are struck, not taking mintage into account.

stopped, while the cost of transport and insurance of gold rose to an unprecedented figure. Consequently the normal specie points for import and export lost all significance, and there could be no question of maintaining the pre-war parity.

We may add that, in view of the crisis in the Netherlands which accompanied the outbreak of war, everything had to be done to strengthen the position of the Central Bank as much as possible. In a previous chapter we have already described how, *inter alia*, this led to a prohibition of the export of gold, except in special cases in which the Government granted exemption.[4] On the same day on which this action was taken, the Government formally released the Bank from the obligation undertaken in its declaration of 1903 already mentioned; and the position thus brought about has been maintained until April 29, 1925, when the gold embargo was abolished, and the gold standard was restored in the Netherlands.

The reader would, however, be mistaken if he inferred from the foregoing facts that the Netherlands Bank had adopted a purely passive attitude with regard to movements in the rates of exchange during the period here under discussion, for such was by no means the case. Whenever the exchange value of the currency of some country or other was quoted on the open market at a premium of any importance throughout this time, the Bank always did its utmost to supply Netherlands trade and industry with the means of payment of their indebtedness to foreign countries at prices which were as near as possible to gold parity. In order to do so the Bank adopted a system which differed in principle from that employed before the conflict in that it no longer freely delivered gold for export purposes. Apart from the fact that such delivery would hardly have been compatible with the export prohibition, the inevitable result, under the circumstances, would have been that the arbitration would have seized the gold issued by the Bank and would have employed it for purposes of no benefit to the Netherlands, or perhaps even directly opposed to the country's interests. The Bank naturally did not wish to lend assistance that could be misapplied in this way, and therefore restricted its activities to selling cheques payable in foreign centers as far as was necessary and feasible, and only on behalf of purely Netherlandish interests whenever the ex-

[4] Royal Decree of July 31, 1914, *Staatsblad* No. 333, subsequently confirmed by the Act of August 3, 1914, *Staatsblad* No. 344; *see* p. 8.

change of any particular country moved to an appreciable extent to the disadvantage of the Netherlands. In order to be able to do this the Bank, duly authorized by the Government, occasionally sent small consignments of gold to various countries for its own account. Since the object of these shipments has not always been properly understood, it may not be out of place to state here explicitly that they took place exclusively with a view to providing Netherlands traders with the means of paying their foreign debts at reasonable rates of exchange. Generally speaking, the intention was not to try to maintain the parity of the Netherlands guilder in relation to the various other currencies, for it was obvious that this was quite impossible under the prevailing circumstances. On the other hand, it naturally cannot be denied that the consequences of these shipments of gold exercised a certain influence on the exchanges.

If we omit the month of August, 1914, when the exchange market was entirely disorganized and when, as a result of the moratoria proclaimed in foreign countries, very little could be done in the direction indicated above,[5] there were not many occasions during the first years of the War in which the Netherlands Bank was required to lend its intermediation for obtaining means of payment abroad. As a rule foreign currencies were at a discount in relation to the guilder, and if for a short space of time they were at a premium, this was frequently too insignificant and its duration too brief to render any special measures necessary. Only the temporary rise in the dollar rate in 1915 induced the Bank to make a few small shipments of gold to the United States during the spring of that year.

The situation began to assume a somewhat different aspect when, in the first half of 1916, the Swedish exchange commenced to rise considerably. As soon as this advance had reached a point at which it was possible to export gold with a small profit in spite of the still abnormally high cost of transport and insurance, the Bank took steps to transmit a certain quantity of the yellow metal to Sweden in order to be able to draw cheques against it at Amsterdam. In doing so, however, the difficulty was encountered that the Swedish Riksbank, as already stated, would accept gold only in very limited

[5] During the first few weeks of the War, its services in this respect were chiefly restricted to the delivery of funds in foreign centers on behalf of the Netherlands Government and in a few urgent cases in the public interest.

quantities and on relatively onerous terms, while for a certain period payment in this metal was even absolutely refused. At first, this made it impossible to arrive at a definite settlement with Sweden, with the result that the rate of exchange between the Netherlands and that country, after a temporary reaction in the latter half of 1916, again advanced considerably during the year 1917. It was not until the spring of 1918 that the Swedish Riksbank modified its attitude (a change which to some extent was certainly due to the arguments of the Netherlands Bank) and declared that it was prepared to receive gold at the pre-war price without restrictions. The Netherlands Bank then immediately placed a fairly large amount of the metal at the disposal of the Swedish Riksbank and was thus able to supply Netherlands traders with means of payment in Sweden at a considerably lower price than could then be secured in the open market. Towards the end of 1918, the proceeds of this consignment of gold had been exhausted, but the rate of exchange between the Netherlands and Sweden no longer necessitated further shipments.

In the meantime, the great rise in the Swiss franc, which commenced in the summer of 1917, had induced the Bank to attempt the shipment of funds to Switzerland in order to be able to sell cheques on that country. In contrast with what had been experienced in the case of Sweden, the Bank's endeavors there met with immediate success. The Swiss National Bank proved quite willing to accept gold in payment, and accordingly eleven separate consignments were sent to Switzerland during 1917 and the early part of 1918, the aggregate value being a little over 55 million francs. With the assets thus obtained, the Netherlands Bank was able to offer Netherlands buyers a generous supply of cheques on Switzerland at the rate of 48.60 guilders per hundred francs. Probably it was largely due to these measures that the exchange on Switzerland gradually began to recede during the latter part of 1917 and even fell below gold parity in the course of 1918. When the Swiss franc again rose 3 or 4 per cent above par early in 1919, the same measures were adopted to restore the equilibrium.

Although on a smaller scale than in the case of Switzerland, the same policy of exporting gold for its own account and furnishing cheques on foreign centers to Netherlands traders was also adopted

by the Netherlands Bank with relation to Spain, Norway, and Denmark.

In the preceding section we have seen that the dollar rate at Amsterdam showed a sharp rise after March, 1919. In the month of May it reached gold parity, and before very long it was quoted at a considerable premium above the guilder. The question then arose whether, now that hostilities were over, the Netherlands Bank should revert to its pre-war policy and generally undertake to maintain the gold parity of the guilder by surrendering gold for export. After mature consideration, the Bank came to the conclusion that it should not do so for the time being. There were several good reasons for this decision. In the first place, it was obvious that, since government intervention in every direction was being reduced all the world over after the signing of the armistice, and since a strong revival of trade was perceptible, any endeavor to maintain exchanges artificially at a certain level would naturally involve far greater difficulties than had been experienced during the War. Moreover, as is well known, government control of exchanges between the principal Allied and Associated Powers had been removed in the month of March, 1919, so that—with the exception of the United States, which canceled all restrictions on the export of gold in June, 1919,—practically no country was now prepared freely to send yellow metal abroad in any form with a view to the maintenance of its exchange. If, under these circumstances, a small power like the Netherlands began to surrender gold, there would be a great risk of its stock being completely absorbed within a very short time by the general arbitration without the slightest benefit to the country itself.

There was another point to be kept in mind. Assuming that the Netherlands Bank undertook the task of maintaining the parity of the guilder by the delivery of gold, the only rate which would make it necessary to part with the yellow metal was that of the dollar. None of the other exchanges between the Netherlands and other countries showed a premium of any importance, at least until the summer of 1920. Practically speaking, therefore, the problem of the policy to be adopted by the Netherlands Bank at that time could be reduced solely to the question as to whether the Bank should freely use its gold for the sake of regulating the dollar rate. In order to be able to answer this question, it was above all necessary fully to

realize the character of the rise in the exchange on New York. It was clear that this advance was brought about by very extraordinary circumstances closely connected with the singular position in which the United States had been placed in the period immediately following the armistice owing to their large exports to impoverished Europe. These had indeed converted America to an unprecedented extent into the creditor of Europe, and had created there, for the time being, an extraordinarily strong demand for dollars, which had been considerably increased, as has already been mentioned, by the requirements of reparation payments. Consequently it was inevitable that the dollar rate should advance sharply at Amsterdam. It was clear, however, that, in a certain sense, this was an exceptional phenomenon which would ultimately disappear of its own accord, but for which there was no radical remedy for the time being in a small country like the Netherlands. The origin of the high dollar rate lay, in fact, far more in the dollar than in the guilder; and even if the Netherlands had surrendered its entire stock of gold in order to regulate the dollar exchange, it would never have succeeded in doing so. Any smaller consignments of yellow metal were, therefore, *a fortiori* to be considered futile, and the only solution appeared to be the absolute cessation of all delivery of it.[6]

This policy of the Netherlands Bank was not generally approved in the Netherlands at the time. Especially in the first half of 1920 a somewhat strong sentiment was revealed in certain quarters urging the restoration of the free delivery of gold. This tendency was not a singular phenomenon. It was the result of a fairly strong current of opinion, which at that time appeared in certain daily newspapers and periodicals, to the effect that the Netherlands should return as quickly as possible to the pre-war gold standard. Space does not permit us to give a complete review of the fairly voluminous literature, mostly of a rather controversial nature, which was the result. It will suffice to record that the chief document in which it was expressed was a declaration concerning the monetary policy of the country which was published on May 15, 1920, by fourteen pro-

[6] In accordance with this resolution, the delivery of gold in favor of the Netherlands East Indies, which had recently assumed considerable proportions, was also stopped in the summer of 1919 (*see* p. 59). *Cf.* on this point Dr. G. Vissering, *Muntwezen en circulatiebanken in Nederlandsch-Indië* (Amsterdam, 1920), pp. 372 *et seq.*

fessors and other students of economics, and which at the time gave rise to a great deal of discussion.

This document, though drawn up in rather vague terms, severely criticized the policy followed by the Netherlands Bank since the armistice, pointed to the increase in the amount of circulating media which had set in since 1914, and argued that it was imperative not only that any further augmentation in the quantity of money should be prevented, but also that steps should be taken with a view to reducing what was already in circulation. The signatories were of opinion that two means should be adopted to attain this dual object: one was the raising of the discount rate already referred to,[7] intended to reduce the volume of credit granted; the second was the delivery of gold. The signers imagined that these two measures, applied in connection with each other, would do away with the depreciation of the Netherlands currency in relation to gold, would stabilize the exchanges, and would in future form a natural curb against an excessive increase in the circulation of money.[8]

The Netherlands Bank did not share this opinion. In the previous chapter we have seen what it thought of a rise in the discount rate as a means of reducing the amount of credit,[9] and we need not revert to it here. That it was desirable, generally speaking, that the gold standard should be brought back as soon as circumstances permitted was not disputed by the Bank. It believed, however, that the moment for this action had not yet arrived and that it was precisely with a view to making such restoration possible in the future that it was

[7] *See* pp. 69 *et seq.*

[8] *See* the text of the declaration in the monthly *De Economist* (The Hague), 1920, pp. 387 *sqq.* We may here record that the declaration met with opposition from various quarters and, *inter alia,* led to a counter-declaration, signed by seventeen other persons of high standing in various spheres of life, which was published on May 23, 1920, and which contained a protest against the declaration of the fourteen. This counter-declaration uttered a warning with respect to the danger of deflation involved in a forced reduction of the circulation, and it was pointed out that the delivery of gold under the existing circumstances would be of little or no help in restoring the exchanges. *See* the text of the counter-declaration in *De Economist* of 1920, pp. 454-455. Several signatories to the first declaration subsequently partly withdrew their statement and admitted that they had been mistaken to a certain extent in May, 1920.

[9] *See* pp. 69 *et seq.*

advisable to be as thrifty as possible with the existing stock. Moreover, apart from the fact that, as explained above, the Bank considered the delivery of gold useless as a means of restoring the exchanges, it held that, under the circumstances, the adoption of such a measure involved a very positive danger. What, indeed, were the facts? The only country with a free gold market at that time was the United States of America, while all other nations clung to their yellow metal; as a rule they were prepared to accept it, but would not permit it to leave the country again. The consequence was that gold had to a large extent lost one of the qualities which, before the War, had made it so eminently adapted for the rôle of international medium of payment, *viz.*, its mobility. Whoever exported it now had seriously to consider that there was a very great likelihood that he had definitely lost it because of the extremely small probability of his receiving any yellow metal again within a reasonable space of time. Under these circumstances there was, particularly for a small country like the Netherlands, a danger in the issue of gold which should not be underestimated—the risk that the stocks might be exhausted in a relatively short time without any probability, comparatively speaking, of replacing them in the near future. It was clear that such a contingency would prove fatal to the general confidence in the Netherlands guilder. Even the mere fact that it became known internationally that the Netherlands was delivering gold to unlimited amounts for the payment of its imports, without a reasonable chance of the country being able to replenish its stocks in due course, would probably be sufficient seriously to shake reliance on the currency. The consequences of such a shock would be the more critical because, as we have explained elsewhere,[10] it was precisely in view of the trust which they had so far had in the Netherlands guilder that foreign countries had deposited considerable balances in the Netherlands. If public confidence in the Netherlands' currency were undermined, the decline in the guilder exchange which would inevitably accompany this process would naturally lead to an instant withdrawal of these balances on a large scale; and this very act would naturally cause a further and immediate depreciation. Consequently, if Netherlands exchange was to be maintained, it was imperative above all that confidence in the guilder should remain unshaken, particularly with a view to the foreign

[10] *See* pp. 42, 45.

balances deposited in the Netherlands. Under these circumstances the delivery of gold could only weaken such assurance.[11]

In spite of all these considerations, the Netherlands Bank was naturally not oblivious of the disadvantages connected with the unfavorable dollar rate; and, although it was not able to remove them, it could attempt to reduce them as much as lay within its power. It was in so much the better position to do this because it had acquired fairly large assets of gold in the United States[12] by rendering its assistance in collecting dollar balances of Netherlands origin during the War. Shortly after the armistice, these deposits had been converted into bills; and when the dollar continued to rise, the Bank gradually began, in the spring of 1920, to liquidate this bill portfolio. Thus it succeeded in reducing to some extent the daily fluctuations in the exchange on New York, although the dollar, as we have seen in the preceding section, continued to advance until November, 1920.

When, in consequence of this policy, the Bank's holdings in the United States had been considerably reduced towards the early part of 1921, one or two shipments of gold were made to America to replenish its deposits. In 1922 the Netherlands East Indian dollar loan referred to above[13] presented a welcome opportunity of restocking the Bank's dollar holdings in the United States, while a few further consignments of yellow metal were sent to America in the months of September and October, 1922. The Bank could thus continue to issue dollar cheques on a modest scale during 1921 and 1922. It is difficult to say if and to what extent it thus helped to bring about the considerable decline in the dollar rate which began in those years, but in all probability the Bank's share in the causes which led to this fall was only very slight. In the main, its influence during this period was limited to the removal of the slighter variations in the course of the exchange.

[11] On the question of the delivery of gold *see* Dr. G. Vissering, *Introduction to the Discussions at the International Financial Conference on the Subject of Currency and Exchanges* (Brussels, 1920), pp. 37 *et seq.*

[12] *See* p. 56.

[13] *See* pp. 40, 56.

II

WAR FINANCES IN THE NETHERLANDS, 1908-1922

BY H. W. C. BORDEWYK

INTRODUCTION

THE population of the Kingdom of the Netherlands shows a steady increase. On December 31, 1914, it was 6,339,727, and by December 31, 1919, it had advanced more than half a million to 6,841,155. From 1909 to 1920 the average annual increment was 1.42 per cent, in 1921 1.63 per cent, in 1920 1.57 per cent, and in 1923 1.78 per cent.[1] During the eleven years between the censuses of 1909 and 1920 the population gained by no less than a million in spite of the almost constant decline of the birth rate, which was more than counterbalanced by the fall in the death rate. Whereas in 1840 to 1849 there were 33.54 births and 26.56 deaths per thousand, in 1923 the former had declined to 26, and the latter to 9, the annual net increase thus rising from 0.67 to 1.78 per cent.

By the middle of 1924 the population was more than 7.25 million, and its density was 221 per square kilometer as contrasted with 185 in 1914. Within the narrow compass of the Kingdom this problem looms large and ominous. A few decades hence the Zuyder Zee will have been reclaimed and put under the plough at the expense of hundreds of millions of guilders; but although this will doubtless mean one of the greatest victories of the human mind, it will not greatly affect the situation, since even an optimistic estimate admits that at most 400,000 people will be able to find a livelihood on the 200,000 hectares which will become cultivable. In view of the present rate of increase, this means that if this land were now available it would within four years be completely occupied.

It is clear that such an increment must fairly soon come to an end

[1] See *Het Fatum van Bevolkingsvermeerdering,* by Dr. J. Bierens de Haan, Jr., p. 10; the articles by Prof. Dr. C. A. Verrijn Stuart in the *Economisch-Statistische Berichten* of January 22, 1919, *De Daling van het Geboortecijfer in Nederland;* June 1, 1921, *De voorloopige Uitkomsten der Volkstelling;* and October 18, 1922, *De Toeneming der Bevolking in Nederland,* the latter a rejoinder to an article by the Manager of the Central Statistical Bureau, Prof. Dr. H. W. Methorst, in the same journal for October 4, 1922. In that year the problem of population was discussed by the Society for Economics and Statistics, being reported upon by Prof. Dr. J. H. F. Kohlbrugge and Dr. L. A. Ries, and the question being formulated thus: "What will be the influence of the economic development during the last few years upon population returns, especially on those of the Netherlands?"

in one way or another, for a population of 28 million before another century shall have passed is practically impossible in the restricted territory and with the limited capital of the Netherlands. The only question is whether a still further decline of the birth rate or an increase of the death rate or, as is most probable, a combination of the two will bring about the slower augmentation necessary for the prosperity of the country. The first of these three possibilities seems preferable in view of the sorrow consequent upon an increase of the death rate and the economic loss coupled with it.

Emigration has never been an important factor, in consequence of the attachment of the people to their native land; and it is constantly becoming even less, because of the increasing difficulty of settling elsewhere. In 1920 the number of emigrants from the Netherlands amounted to 5,978, in 1921 to 3,286, and in 1922 to 2,158. Nearly all of these went to North America, for although the Netherlands possesses important colonies, they have never been considered desirable for emigration, mainly because of the obstacles presented by the tropical climate, and the most attractive of them, the island of Java, is already more densely populated than the mother country itself.[2]

The statistics of occupations, including both men and women, annexed to the census of December 31, 1920, yielded the following results:[3]

Occupation	*Heads of establishments*	*Foremen*	*Employees*	*Total*
Industry	151,833	27,630	849,285	1,028,748
Agriculture	215,679	6,171	404,139	625,989
Fishing and hunting	5,146	62	14,389	19,597
Commerce	112,800	9,545	149,373	271,718
Credit and banking	1,930	822	26,943	29,695
Transportation	46,392	5,523	210,237	262,152
Insurance	943	192	15,464	16,599
Total	534,723	49,945	1,669,830	2,254,498

[2] In 1920 the population of Java was 266.2 per square kilometer (see *Statistiek van Nederland,* No. 378, census of December 31, 1920).

[3] See *Maandschrift van het Centraal Bureau voor de Statistiek,* September 30, 1924, p. 1103. For more detailed returns, see *ibid.,* August 30, 1924, pp. 1021-1024.

When we compare these returns with those of 1909, we cannot fail to be struck by the considerable increase, not only absolutely but relatively, of the number of persons occupied in industry: in 1909 they were 34.12 per cent of all engaged in some profession or trade; and in 1920, 45.63 per cent. This very clearly shows the increasing industrialization of the Netherlands, and it receives additional emphasis when it is compared with the evolution of the other great occupation, agriculture. This has remained practically stationary. In 1909, 616,565 persons, or 27.26 per cent, and in 1920, 625,989, or 27.76 per cent, were engaged in agriculture and cattle-breeding. It may indeed be noted that, particularly in agriculture, the number of persons cannot serve as an exclusive measure of importance, because the saving of labor by a more intensive use of machines, by less toilsome cultivation, or by change from farming to cattle-breeding here finds a wider scope than in industry, which, technically speaking, is so much further advanced. There is some truth in this, but it should not be overestimated. The development of machinery used in agriculture is peculiarly restricted by the nature of the case, and, moreover, large-scale agriculture, which best adapts itself to it, is decreasing in favor of small-scale farming in which machines are much less wanted because they do not pay. The subjoined table,[4] which gives only proportionate figures, will elucidate the transition from large-scale to small-scale agriculture:

Amount of land tenure	*Percentage of the number of agriculturists holding one hectare and over*		*Percentage of the area worked by agriculturists holding one hectare and over*	
	1910	*1921*	*1910*	*1921*
1-5 hectares	52.40	50.81	13.47	14.01
5-10 hectares	19.81	22.08	15.04	17.28
10-20 hectares	14.74	15.57	22.33	24.30
20-50 hectares	11.38	10.24	36.78	34.01
50-100 hectares	1.57	1.19	10.58	8.29
100 and over	.10	.11	1.80	2.11
Total	100.	100.	100.	100.

The number of agriculturists holding between 20 and 50 and between 50 and 100 hectares even shows an absolute decrease, as the following table proves:

[4] See *Het Grondgebruik in Nederland in 1921* (No. 2 of *Verslagen en Mededeelingen van de Directie van den Landbouw,* 1923), pp. 4-12.

	1910	*1921*
1-5 hectares	55,366	60,610
5-10 hectares	37,331	44,468
10-20 hectares	29,411	33,076
20-50 hectares	23,331	22,182
50-100 hectares	3,214	2,529
100 and over	191	210
Total	148,844	163,075

This is quite in keeping with the decrease of the average acreage of the agricultural units:

	1910	*1921*
	(*in hectares*)	
Sea clay	22.27	19.35
River clay	9.46	8.85
Meadowland	15.95	14.65
Sandy soil	7.67	7.59
Peat moor colonies	13.94	13.93
Horticultural areas	13.79	12.

Horticulture, which, as is well known, is worked more intensively than any other agrarian occupation, gained greatly during these years. The number of those engaged in it rose from 15,488 in 1910 to 18,800 in 1921, the area involved increasing from 33,138 hectares to 44,968. In contradistinction with agriculture, all classes of tenure shared in the increase of units, with the sole exception of the next to the smallest (0.15 to 0.25 hectares, of which there were 457 units in 1910 as against 414 in 1921).

Obviously we may infer from these figures that, on the whole, agriculture certainly does not occupy fewer persons per hectare than formerly, but that it requires a larger measure of national energy because of more intensive exploitation. The progress of the Netherlands' industrialization, therefore, threatens to result in a disparity in the distribution of labor from which agriculture would feel very untoward effects directly, while other main branches of national effort would be injured indirectly. Further sound development of agriculture as an entity appears impossible in view of the figures just cited.

The constant migration to the great cities, a symptom which is seen in all countries where industrialism is growing, is very much in evidence in the Netherlands, though it also illustrates the stability of the agricultural class. Whereas in 1829 the towns of more than

100,000 inhabitants contained 14.3 per cent of the inhabitants of the Kingdom, this proportion had risen to 24.17 in 1920. Although this development may be quite natural in view of the large increase of the population, it also has its disadvantages, because a more harmonious distribution between the towns and the countryside is undoubtedly preferable from a social, hygienic, moral, and political point of view. As the percentage of the rural population decreases, it will be less capable of affording the necessary renovation of blood to the city dwellers.

As compared with new countries where extensive agriculture is still the rule and where the yield per laborer is high, though low per unit of surface, wages are relatively small in the Netherlands, and this fact enables her to import a large part of the foodstuffs and raw materials which she needs, and to pay for them with manufactured articles. Most probably western and central Europe, densely populated and industrialized, has already passed the zenith in this regard, so that its evolution will proceed increasingly in an opposite direction. The cost of production, in consequence both of the action of the trade unions and of encroaching social legislation, has greatly risen here also; and this hampers the retention and the renewal of foreign outlets. Moreover, the very new countries are themselves experiencing the same process of urban concentration and of industrialization, with the result that wages are declining even there, and the advantage of importing cheap products is decreasing. This situation in particular permanently reduces the power of meeting the needs of Europe's increased population by continuing exports of grain and raw materials even on the old scale, to say nothing of one larger. New granaries, like the United States, Canada, and the Argentine, will never again become available in a world which is gradually becoming filled. Russia, which both in geographical situation and in soil, appears best adapted to feed western and central Europe in large measure, remained in eclipse up to 1923-1924, even though she may still recover slowly from the destruction which war and Bolshevism have wrought in her huge empire. Nevertheless, her large agricultural holdings have been replaced by peasant-tenure, and there is no doubt that the former is much more capable than the latter of yielding an export surplus to an extent which could in any degree meet the constantly increasing requirements of the countries which are being industrialized. Even though Russia is, very fortu-

nately, again shipping grain[5] (3 million tons in 1923-1924 as contrasted with about 10 million before the War, whereas her exports for 1925-1926 will probably exceed 3 million) the question of foodstuffs still remains the most alarming problem which faces western Europe, and the Netherlands as well. When the Old World shall no longer be able to feed its population, which has increased so much through international division of labor and international transport, it will be impossible to escape impoverishment. Despite the progress of hygiene, with its demand for the expenditure of enormous sums, a heavier mortality will then become inevitable and will tend to restore the impaired equilibrium.

A few figures regarding the principal breadstuff, wheat, will amply refute any charge of undue pessimism in respect to this problem. The value of the Netherlands wheat harvest in 1923 amounted to 19.3 million guilders,[6] but the import balance of the grain of that year was rated at 66.3 million guilders.[7] The output of the Netherlands, therefore, did not amount to two-ninths of the value of her total consumption of wheat; and, at a rough estimate, the foodstuffs grown in the country itself support the population for three months only. It may be possible to improve this situation to some extent, but it must not be forgotten that even now the limited area of land available is cultivated to the utmost, and, generally speaking, agriculture, cattle-breeding, and horticulture are very intensive. We may, therefore, take it for granted that it is quite out of the question for the present population of the Kingdom to live entirely upon the products of its own soil, even though it sacrificed more remunerative products.[8]

[5] *See* Jan Schilthuis, *De russische Graanuitvoer,* in *Economisch-Statistische Berichten,* 1925, pp. 826-828.

[6] Cf. *De Waarde van de Nederlandsche Bodemproductie in 1923,* in *Verslagen en Mededeelingen van de Directie van den Landbouw,* 1925, No. 2, pp. 50 *et seq.*

[7] *Statistiek van den In-, Uit-, en Doorvoer,* 1923, Parts I-II, pp. xlvi *et seq.; Landbouwverslag,* 1923, p. 84.

[8] The year 1921 broke the record for grain. The crop of winter wheat averaged 41.3 hectoliters per hectare as against 34.3 in 1920; summer wheat, 38.4 as against 30.3 in 1920; rye, 31.4 as against 25.7 in 1920. Crops of between 50 and 60 hectoliters of rye were not rare in 1921. The following years show a decline, the average crop for wheat in 1924 being 34.6, and rye 28.1 hectoliters per hectare.

PART I

CHAPTER I

THE BOOM PERIOD AND THE SUBSEQUENT DEPRESSION

The Netherlands had kept out of the War, although she was repeatedly in great danger of being involved in it; but she was gravely affected by the economic setback consequent upon the conflict. Almost every commodity was very dear, and the difficulties of providing food for the people increased continually. Despite drastic government measures which finally socialized business and the distribution of production, the people reached the very brink of famine, and potato-riots broke out in Amsterdam. A large part of the population gradually became undernourished, and there was grave danger of unemployment. Agriculture lacked fertilizers, and industry experienced increasing difficulties in importing raw materials, while inflation in the neighboring countries hampered exports, which had been a considerable source of profit during the earlier years of the War. Commerce and shipping were almost entirely at a standstill, and communications were much reduced, partly because cash transactions had taken the place of credit. The fiduciary issue of the Netherlands Bank had more than trebled, and although this did not mean inflation in the strict sense of the word because of the proportionate increase of the reserves of bullion, the gold value of the guilder had depreciated, thus greatly contributing to high prices.

When the armistice was signed and the War was practically over, the depressed morale resulting from the constant threat of war and from the increasing economic distress which had endured for four and a half years was replaced by a feeling of profound relief which very soon changed to an unbounded optimism. History repeated itself on a far larger scale than ever before. The so-called *Gründerperiode* in Germany after 1870-1871 was well known, and the directors of the Society of Social Economy and Statistics, wisely looking into the future, asked in 1916 what lessons might be drawn from the crisis of 1873, and how far they might be applicable to the

economics of the future. It was all in vain. Such a man as Professor Treub at that time made the following remark:[1] "Still I would greatly regret it if this very plethora of money and the optimism which is felt by those who because of the War have made large profits, were not made use of to invest that money in Netherlands funds and industry, and in general in everything that the Netherlands can produce." And he added: "This is a kind of protection of which I may say: It is almost exclusively good, there is very little harm in it."

If a man of Treub's caliber, in the midst of the War gave his blessing to optimism, it is comprehensible that business men, when the War came to an end, lost their heads. The unrestrained optimism of the leaders of industry caused the expansion of a large number of enterprises, thus unnecessarily increasing the subsequent crash and depression. This probably caused losses of capital during the post-war period to exceed those resulting from the conflict itself, and there was no realization of the fact that need of commodities is not identical with the purchasing power required to obtain them. People were blind to everything except the values that had been destroyed directly and indirectly by the War. They concluded—not without reason—that prosperity was woefully absent where formerly it had been abundant, and they forgot that a heavy demand unsupported by corresponding ability to buy is powerless to make industry thrive.

Here may be found a reason, though scarcely an excuse, for the fact that during the post-war period of seeming prosperity all warnings, chiefly from theoretical economists, were disregarded everywhere. Stern reality had to be faced, and the crisis had to come, before men's eyes were opened; but enormous losses of capital and widespread unemployment have shown that a plethora of money is not necessarily the same as an abundance of capital, and that demand and purchasing capacity are two different things.

In particular, though by no means exclusively, the navigation companies manifested this optimism by building new tonnage, the statistics of the Netherlands merchant marine being as follows:

[1] Society of Social Economy and Statistics, *Report of the General Assembly of October 14, 1916,* p. 38.

Years	Sailing vessels		Steamers	
	Number	Tonnage	Number	Tonnage
1914	402	47,150	407	719,669
1918	332	31,593	575	769,584
1920	241	24,426	596	969,971
1922	214	19,917	660	1,280,089
1923	199	18,755	657	1,310,355
1924	173	16,751	696	1,302,783
1925	168	15,886	781	1,311,976

The average net tonnage of all seagoing vessels rose from 984 in 1914 to 1,442 in 1922, 1,518 in 1924, and to 1,494 in 1925. These figures are eloquent. The increase even after 1920, when the depression began, shows that facts were ignored, and that there was an aversion against taking the crisis seriously.

The following table embodying the quotations of the shares of some of the largest shipping companies conclusively reveals the situation:

	January, 1919	January, 1920	January, 1921	January, 1922	January, 1924	January, 1925
	(par equals 100)					
Holland-America Line	398	491	286	160	100	71
Holland Steamship Company	203	245	110	51	33	27
Java-China-Japan Line	309	339	183	110	99	110
Royal Dutch Lloyd	175	192	102	28	15	6
Royal Netherlands Steamship Company	235	246	142	92	78	81
Nievelt Goudriaan Company	486	580	290	148	105	111
Rotterdam Lloyd	285	317	176	138	129	133
Netherlands Steam Navigation Company	286	373	207	160	149	161

These figures clearly show that the period of abnormally large profits is closed, and that various companies are in distress. The Royal Dutch Lloyd could be saved from collapse only by energetic government help. The system, especially enticing in periods of expansion, of investing undivided profits in business, thus exposing a large part of the reserves to the same risks as the capital, has wrought its own revenge. When heavy losses occur, the reserves themselves are affected, and they become unavailable for the very purpose for which they were created, that is, to make up for deficits.

The depression of the shipping trade during the War, which reached its lowest point in 1918 and then gradually rose, is evident from the following statistics:

	Loaded vessels			*Unloaded vessels*			*Total*	
	Number	*Net tonnage**	*Percentage*	*Number*	*Net tonnage**	*Percentage*	*Number*	*Net tonnage**
				Inward Clearings				
1913	14,952	17,144	94.2	2,044	1,054	5.8	16,996	18,198
1918	1,464	1,377	82.8	315	286	17.2	1,779	1,663
1919	5,647	6,010	84.7	1,435	1,088	15.3	7,082	7,098
1920	8,317	9,458	83.3	2,797	1,893	16.7	11,114	11,351
1921	10,702	13,617	79.8	3,372	3,453	20.2	14,074	17,070
1922	13,867	17,143	91.3	1,856	1,642	8.7	15,723	18,785
				Outward Clearings				
1913	11,878	11,021	61.1	5,211	7,006	38.9	17,089	18,027
1918	1,290	906	53.3	676	794	46.7	1,966	1,700
1919	4,408	3,663	50.5	3,062	3,587	49.5	7,470	7,250
1920	7,712	6,942	60.7	3,708	4,501	39.3	11,420	11,443
1921	9,995	10,876	66.1	4,143	5,578	33.9	14,138	16,454
1922	9,392	10,962	58.2	6,526	7,871	41.8	15,918	18,833

* In thousands of tons.

These data show that shipping is recovering to a considerable extent, although one must not forget that even if the figure of 1913 is again attained after an interval of ten years, this really means a decline for a nation which is steadily increasing in numbers.

That the rising curve does not continue uninterruptedly, and that there is still an element of uncertainty in the situation, is proved by the statistics of Rotterdam, the principal port of the Kingdom:

	Inward Clearings	
	Ships	*Registered tonnage*
1913	11,443	13,915,542
1917	1,570	1,337,897
1918	1,273	1,270,959
1919	5,185	5,345,242
1920	6,785	8,405,342
1921	9,314	12,233,423
1922	9,453	13,522,320
1923	9,194	12,776,021
1924	11,714	17,158,806

Here the decline in 1923 and the great rise in 1924 were remarkable. The former undoubtedly found an explanation in part in the economic results of the occupation of the Ruhr and the consequent diminution of traffic. The assimilation of Antwerp to French ports by exemption from the *surtaxes d'entrepôt et d'origine* also had an effect, although to a smaller extent. Rotterdam is, moreover, handicapped by low railway tariffs from places in Germany to German ports, which means an artificial impediment to exportation *via* Rotterdam. M. Jan Schilthuis, who has devoted some very interesting articles to this subject,[2] very rightly says: "Since the War nothing has altered the fact that Rotterdam is one of the best situated and best equipped harbors of Europe. . . . As a port for the German hinterland Rotterdam controls greater facilities than its rivals, and only unnatural and temporary causes can diminish its traffic for any considerable length of time. Recovery is sure to come as these causes gradually disappear and the economic situation improves, beginning with Germany."

M. Schilthuis wrote this despite the fact that the navigation of the Rhine showed a constant decrease. In one year's time, from 1922 to 1923, the clearings for Rotterdam at Lobith, where the Rhine enters the territory of the Netherlands, declined from 3,141,158 to 1,692,492 tons, and the outward clearings from Rotterdam from 8,453,736 to 5,752,486. The total Rhine traffic with Netherlands ports fell from 12,511,000 tons to 7,940,000, *i.e.*, 37 per cent, and Rotterdam shared in this decrease to the extent of no less than 4,150,000 tons, or 91 per cent of the total.[3] M. Schilthuis is not altogether too optimistic; but the statistics already given, and easily supplemented from various other sources, conclusively prove that Rotterdam, the largest harbor and transit port of central Netherlands, is one of the cities most distressed economically by the War.

Freight rates show a constant decline between 1919 and 1922.[4] The rate per ton of ore, quoted in sterling, fell from 62/9¾ in 1920 to 15/3 in 1922 (Nicolayev to Rotterdam), and that from Bilbao

[2] *Het Havensverkeer te Rotterdam,* in *Economisch-Statistische Berichten* of May 7, 14, 21, 1924. *See also* D. J. Wansink, *Eenige Gegevens omtrent de Economische Gevolgen van de Roerbezetting voor Nederland,* March 12, 19, 26, April 2, 1924.

[3] *Cf.* Wansink, p. 305.

[4] See *Jaarcijfers,* 1922, p. 226, and *Statistisch Zakboek,* p. 79.

from 30/ in 1919 to 7/3¾ in 1922. The rate for grain from Buenos Aires to the United Kingdom or the Continent sank from 150/5¼ per ton in 1919 to 26/6½ in 1922, and that for rice from Burmah to the Netherlands or the United Kingdom from 178/6½ per ton in 1919 to 27/1½ in 1922. These figures show better than any argument the terrible crisis to which shipping in those years was exposed.

The following table for the total movement of merchandise over the frontiers by all modes of transportation gives the same impression:

Year	*Inward clearings*	*Outward clearings*	*Balance inward*
	(in thousands of tons of 1,000 kilograms)		
1913	60,489	45,033	15,456
1914	42,974	30,738	12,236
1915	23,485	11,730	11,755
1916	22,959	12,154	10,805
1917	13,188	9,037	4,151
1918	9,301	6,440	2,861
1919	16,554	8,433	8,121
1920	27,771	18,082	9,689
1921	36,552	25,101	11,451
1922	39,849	27,372	12,477
1923	33,005	22,330	10,675

Although conditions gradually improved after 1918, the distance between the figures for 1923 and those for 1913 remained very great; and even if traffic should regain the total for 1913, it would still mean a considerable decline in view of the rapid increase of the population.

The values of imports and exports were as follows:[5]

[5] See *Jaarcijfers* of various years. The official statistics of imports, exports, and transit trade show rather strong deviations regarding these figures. Thus, in those for 1923, Parts I-II, p. xliii, the following totals are given:

	Imports	*Exports*	*Import balance*
	(in millions of guilders)		
1920	3,336	1,701	1,635
1921	2,240	1,370	870
1922	2,028	1,221	807
1923	2,009	1,303	706

Year	*Imports*	*Exports* (*in millions of guilders*)	*Import balance*
1913	3,918	3,083	835
1914	2,889	2,505	384
1915	2,111	1,749	362
1916	1,883	1,347	536
1917	1,082	837	245
1918	637	417	220
1919	3,296	1,731	1,565
1920	3,371	1,748	1,623
1921	2,288	1,471	817
1922	2,034	1,256	778

The unnatural character of the revival after 1918 was clearly shown by the very strong rise of the balance of imports, which was doubtless due in great part to the rapidly increasing demoralization of foreign rates of exchange, especially of the German mark.

In itself an import balance need not necessarily cause anxiety, inasmuch as this has a counterweight in items on the credit side of the balance of payments which receive compensation from a surplus of imported merchandise. Nevertheless, an excess of imports of 706 million guilders in 1923 is abnormally high, especially as the Netherlands' large claims on Russia have practically disappeared through repudiation of the debt, while the large amount due for goods transported on foreign account must have been reduced very considerably by the depression in the shipping trade. When we compare our figures with those of 1913 we should remember that the purchasing power of the guilder has declined by about 35 per cent; but even then the statistics of imports and exports upon which the balances are based show still more clearly the enormous decline of traffic with the outside world. In contrasting the figures for 1923 with those for 1913, the former should be reduced by about one-third.

Agriculture during the years under discussion is described in the following tables. Although live stock, with the exception of sheep, showed a constant increase before the War, it was scarcely surprising that the general situation affected cattle also, and that the very high prices which could be obtained for various grades were an insufficient inducement to keep the stock at its highest level. It stood as follows:

Year	*Horses*	*Cattle*	*Sheep*	*Goats*	*Swine*
1913	334,400	2,096,600	842,000	232,500	1,350,200
1917	.....	2,301,500	520,300	.....	1,185,400
1918	378,300	2,048,900	642,300	311,000	600,100
1919	362,011	1,968,609	437,075	.....	1,259,844
1921	363,668	2,062,771	668,211	272,298	1,519,245

The stock of cattle, which is the most important of the categories, shows a considerable decline and has not yet reached its pre-war figure. Its development after 1921 is unknown, but considering the very high costs and the difficulty of feeding with which cattle-raisers was obliged to contend, the results represented by these figures are not altogether unsatisfactory. The heavy decline in the number of swine during the distressing year 1918 shows that man triumphed over beast in the contest for grain. Anyone who then visited that countryside could perceive, almost from day to day, that the decrease in the stock of swine ran parallel with progressive economic exhaustion, especially among small farmers on sandy soil. This was also connected with the lack of artificial fertilizers upon which farming on such soil almost entirely depends in contradistinction with agriculture on rich clay ground.

The hay harvests on permanent grassland were as follows:

Year	*Yield per hectare in kilos*	*Area in hectares, first and second harvest*
1913	4,300	654,521
1914	3,975	651,192
1915	3,875	652,171
1916	4,125	674,314
1917	3,425	670,739
1918	3,500	646,732
1919	3,475	636,920
1920	3,875	646,389
1921	3,240	616,543

The yields of the hay harvests have not been published since 1921, but the statistics just cited show conclusively a tendency towards a decline, though 1923 was particularly favorable. Although weather largely affects the harvest, the constant diminution after 1916 justified the inference that the shortage of artificial and natural fertilizers had an unfavorable effect.

The great and growing difficulties of feeding and the rise of prices for meat increased slaughtering, especially in 1917, to an

extent hitherto unknown. Whereas 400,370 head of cattle were killed in 1916, this figure mounted to 580,582 in 1917, the statistics for calves being 588,464 and 694,133, respectively. This clearly shows that the people of the Netherlands lived on their capital at the cost of the output of milk and dairy products and of the much-needed creation of natural fertilizer. The extent to which the latter diminished cannot be recorded statistically, but must have been very considerable. Moreover, the Treasury failed to grasp the fact that the war profits of agriculture were made in part by loss of capital, so that in this respect the tax on such gains accelerated and increased the process of living on reserves.

Since two of the most important products for consumption and exports are butter and cheese, we may here cite some statistics of the production, export, and home consumption of the former,[6] their trend again being characteristic of the Netherlands' situation during and after the War. The statistics for butter are as follows:

Year	*Output*	*Export surplus (in tons of 1,000 kilos)*	*Consumption*
1913	50,267	34,560	15,707
1914	54,985	35,839	19,146
1915	57,815	41,826	15,989
1916	60,809	35,383	25,426
1917	54,094	24,568	29,526
1918	39,657	2,456	37,201
1919	42,990	13,717	29,273
1920	47,994	20,673	27,321
1921	50,406	20,198	30,208
1922	53,420	23,125	30,295
1923	59,613	23,936	35,677
1924	63,159	34,732	28,427

During the first years of the War the production of butter greatly increased. The Agricultural Report enumerates four reasons for this: (1) the high prices of butter abroad; (2) the ample importations of strengthening fodder; (3) the increasing production of "thin" cheese; and (4) the increase of the output from factories at the expense of that from farms in connection with government control. In 1917 the tide turned, and the decline set in, reaching its lowest depth in 1918, when export ceased almost entirely,

[6] See *Landbouwverslagen,* notably for 1919, p. xxiv.

while home consumption rose enormously by nearly 8,000 tons. In this case also 1918 proved to be the year of catastrophe. The fall in output was the result of the smaller production of milk because of the lack of fodder, while the additional consumption was due to the scarcity of fats, which likewise caused an enormous increase of home consumption of butter at the expense of exports. Butterfat was almost the only fat still at the disposal of the people, and hence its consumption was strictly rationed towards the close of the War.

Exports of butter were divided as follows:

Year	*Germany*	*Great Britain*	*Belgium*	*France*	*Other countries*	*Total*
			(*in tons of 1,000 kilos*)			
1913	19,030	7,939	8,425	....	1,675	37,069
1914	19,658	9,541	7,336	....	1,652	38,187
1915	36,516	2,456	1,477	....	1,787	42,236
1916	31,413	2,191	639	....	1,590	35,833
1917	17,730	4,171	1,782	....	909	24,592
1918	1,673	555	87	....	141	2,456
1919	6,502	90	4,106	....	3,019	13,717
1920	4,018	6,095	4,368	3,022	3,170	20,673
1921	1,163	3,252	6,781	7,386	1,616	20,198
1922	69	3,974	10,009	7,668	1,474	23,194
1923	984	9,477	7,131	3,489	2,855	23,936
1924	22,999	4,703	3,831	715	2,484	34,732

This table clearly shows the extent to which an article like butter depends upon world conditions. At first Germany was by far the most generous purchaser, and the necessity of meeting what was called "economic neutrality" caused the greatest difficulty here as in the case of other articles of export; though such expensive expedients as the payment of a bonus for export to England somewhat improved the one-sided situation, especially in 1917. After 1919 the decline in the value of the mark caused exports to Germany to decline, while those to other countries gained in importance. In 1922 Germany was eliminated, but the stabilization of the mark reëstablished her purchasing capacity, and in 1924 she was again by all odds the largest buyer. Nevertheless, the total export figure for 1924 is not equal to that for 1913.

With regard to the value of exports of butter[7] we may simply give the following statistics for 1920-1923:

[7] Cf. *Statistiek van In- Uit- en Doorvoer,* Parts I and II, 1922, p. lvii; 1923, p. ciii; and the *Landbouwverslag,* 1924, p. xviii.

Year	*Tons*	*Value (in millions of guilders)*
1920	20,673	56.8
1921	20,198	48.67
1922	23,194	44.125
1923	23,936	41.33

The considerable decline of the proceeds despite the increase of exports shows the effect of the depression on this important branch of the export trade of the Netherlands. In 1924 the value of the total exports of Netherlands butter was 69,895,000 guilders. When we remember that exports increase by 50 per cent in 1924 as compared with 1923, about 8 million guilders account for the rise in market value.

Exports of cheese were as follows:

Year	*Germany*	*Great Britain*	*Belgium*	*France*	*Spain*	*Other countries*	*Total*
			(in tons of 1,000 kilos)				
1913	13,267	19,118	16,719	....	....	16,820	65,924
1914	19,822	22,128	11,743	....	....	14,252	67,945
1915	63,065	8,409	5,395	....	....	9,363	86,232
1916	76,286	6,849	2,418	....	....	4,762	90,315
1917	29,180	12,423	4,295	....	....	10,182	56,080
1918	7,131	5,091	104	....	....	2,594	14,920
1919	2,248	4,773	941	....	....	4,454	12,416
1920	13,345	5,843	9,087	5,775	2,407	8,784	45,241
1921	13,587	6,933	13,211	9,645	2,652	6,262	52,290
1922	9,408	9,250	19,558	14,209	3,262	9,526	65,213
1923	9,410	10,994	15,674	12,915	3,012	9,977	61,982
1924	31,527	7,921	14,281	10,316	2,976	10,250	77,271

Butter shipments reached their lowest level in 1918, and cheese shipments in the following year. It is further noteworthy that during 1922, the year of inflation in Germany, exports of cheese to that country fell perceptibly, although the quantity still remained considerable, while shipments of butter to Germany ceased almost entirely. This is probably explained by the increased consumption of margarine in Germany, whereas there is no satisfactory substitute for cheese. Although exports increased almost constantly from 1919, except in 1923, a year of depression, the total for 1913 was exceeded only in 1924, which showed a very substantial gain.

Reliable figures regarding the output of cheese have been available only since 1920, and are as follows:

Year	*Production*	*Export surplus* (*in tons of 1,000 kilos*)	*Consumption*
1920	67,900	45,019.3	22,880.7*
1921	97,706	51,926.3	45,779.7
1922	97,621	64,973	32,648
1923	105,542	61,586	43,956
1924	110,514	76,868	33,646

* Approximate estimate.

The statistics representing consumption are somewhat roughly obtained by deducting the export surplus from the total output, since cheese is a commodity which can be stored when a rise of prices is anticipated. This applies to butter to a much smaller degree. Just after 1921 the price of cheese fell heavily, and this may have promoted speculative storage, especially as the years following again showed an advance.

Gouda cheese containing a full percentage of fat was quoted per 50 kilos as follows:

	(*in guilders*)
1913	33.50
1920	74.83½
1921	77.53
1922	55.
1923	58.12
1924	63.88

The following table shows the value of the cheese exported:[8]

	(*in thousands of guilders*)
1921	67,706
1922	53,626
1923	54,226
1924	74,049

These figures show very considerable fluctuations in price. Although exports in 1922 were nearly 13 million kilos more than in 1921, the proceeds were over 14 million guilders less; and although exports in 1923 were over 3.2 million kilos below those of 1922, the proceeds were 600,000 guilders higher.

[8] *See* the relevant *Landbouwverslagen.*

Important data for judging the condition of agriculture may be found in the last two Agricultural Reports, which contain index-numbers of the prices of the most important agricultural products, as well as those of certain necessities and wages, the periods of 1911-1913 and 1910-1914, respectively, being the starting points.[9] The first publication follows the division by calendar years, the second by harvest periods of a year. The latter is better, but since it does not begin until 1920-1921, the former, which starts with 1914, is given here. The objection which may be alleged against a general index-number, that commodities of very unequal importance contribute equally to the average, is met by using coefficients fixed by the quantity of each product put on the market each year and by the price obtained for it. A change in the price of butter, for example, affects the index-number of products from cattle-raising eight times more than an equal change in the price of mutton.[10]

	1911-1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*	*Coefficient*
Wheat	100	111	154	164	208	274	308	311	193	136	128	7
Rye	100	104	146	166	243	332	326	304	227	143	126	4
Barley	100	108	152	153	192	219	265	256	170	123	104	3
Oats	100	110	171	161	217	248	286	253	156	143	126	6
Field beans	100	111	195	181	235	283	257	209	163	145	126	1
Peas	100	92	155	227	201	221	172	157	128	145	139	4
Beans	100	91	135	211	187	193	182	134	137	250	110	1
Flax	100	134	172	264	272	270	511	543	158	159	160	4
Seeds	100	..	..	..	..	206	298	206	120	152	194	2
Potatoes for consumption	100	186	195	278	..	..	..	..	..	..	135	21
Potatoes for industrial purposes	100	88	172	202	249	..	206	190	158	73	136	4
Sugarbeets	100	95	120	203	215	219	260	260	187	122	202	14
Straw	100	62	120	158	174	249	190	198	57	150	154	3
Index-number for agricultural and horticultural products	*100*	*126*	*161*	*206*	*218*	*246*	*275*	*268*	*166*	*134*	*148*	
Cattle, beef, and veal	100	95	112	131	164	200	310	263	181	132	148	50
Swine and pork	100	109	176	171	207	260	389	312	207	163	154	30
Sheep and mutton	100	75	125	106	128	..	242	215	197	135	161	5
Butter	100	97	117	137	178	221	226	199	186	155	142	40
Cheese	100	101	160	193	198	172	214	209	219	152	156	25
Eggs	100	101	121	172	203	299	281	248	219	156	132	15
Index-number for cattle-raising products	*100*	*99*	*133*	*151*	*183*	*221*	*285*	*245*	*197*	*149*	*148*	
General index-number	100	105	140	168	191	222	282	251	189	145	148	

[9] See *Landbouwverslag*, 1923, pp. 82-83, and for 1924, pp. 82-83.

[10] See *ibid.*, 1923, p. liv.

We append the indices of some important costs of production:

	1911-1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*	*Coefficient*
Maize	100	117	155	..	..	..	289	266	153	152	148	23
Linseed cakes	100	..	..	..	..	..	347	266	210	173	137	13
Chilian saltpeter	100	99	148	237	..	32	220	214	149	120	119	4
Sulphate of ammonia	100	..	..	..	..	..	..	..	..	..	111	3
Sulphate of potassium and magnesia	100	94	209	335	379	503	297	324	194	144	112	4
Thomas phosphate	100	108	..	..	..	462	438	415	246	173	127	1
Potassium	100	100	100	113	133	307	183	177	120	63	73	4
Wages	100	107	116	149	159	202	236	237	229	196	191	50
General index-number	100	108	133	164	176	243	263	247	198	174	161	

For 1924-1925 the index-number for agricultural products was 166 as against 148 in 1923, and that of products from cattle-raising 158 as against 148 in 1923, the general index-number being 161 as against 148 in 1923. The index-number for wages, according to the calculation by harvesting periods, was: 1920-1921, 259; 1921-1922, 244; 1922-1923, 219; 1923-1924, 208; and 1924-1925, 200; while the total index-number of the costs of production for 1924-1925 was 171 as against 161 in 1923.

Agriculture was obliged to contend with great difficulties even after the War, as is shown by an investigation regarding the results of agriculture in 1923.[11] The index-numbers cited above possess only very relative value for judging whether an industry is profitable. As a matter of fact, the elements in the organization of the various enterprises are very heterogeneous, and hence a rise in prices of grain—to cite only a single example—affects a farm which produces and sells its output very differently from one which uses it as fodder. If a cattle-raising enterprise is obliged to purchase grain the higher price is actually a direct disadvantage. The same statement holds true for other items. Wages do not greatly affect agriculture in cases where labor is supplied mainly by the members of the family, as is the rule on small farms in sandy regions. Nevertheless, these index-numbers afford a general survey which, even if not strictly accurate, cannot be wrong in general outline; in many cases, owing to the wide range of observation, more or less accidental influences will give some compensation. The numbers show that the very

[11] *Verslagen en Mededeelingen van de Directie van den Landbouw*, 1925, pp. 41 *et seq.*, especially pp. 46-47.

high prices of agricultural products during the last years of the War and immediately after it yielded considerable extra profits. The clay farms suffered much less from lack of nitrates, thanks to a large reserve of food for plants in the soil and organic manure for replacing it. Wages also were never more than tripled, as was the case, or nearly so, with some of the main products. Moreover, the prices which the Government paid for commandeered crops were based on enterprises which produced under the worst conditions and at the highest cost.

Despite its inevitable defects, praise should be accorded to the endeavor made in 1923 by the Director of the Agricultural Board, aided by agricultural organizations and by administrative data supplied by them, to obtain, for the first time, an insight into the concrete results of industry as found in agricultural regions agronomically very heterogeneous. The principle was adopted that work done by the entrepreneur should not come under the heading of expenses, unlike that performed by children living at home and replacing hired labor. Rent or its equivalent is also entered under the category of expenses, so that it is deducted, even if the farm is worked by the owner. The costs are divided into five groups: (1) wages, (2) seed and seedlings for sowing, (3) fodder for cattle, (4) fertilizers and manure, and (5) other costs of operation; and to these are added interest on implements, live stock, etc., and the average rent value per hectare. In this case, therefore, it is not a question of net proceeds for a group, since these include rent or rent value, wages and interest, but of the net results of the entrepreneur's industry. Naturally, however, these also are of importance to the group concerned, because if the entrepreneur suffers losses which are not made good by higher profits during the ensuing years, his enterprise will ultimately be ruined, a fate from which he cannot be saved by the profits to the group, which for him mean expenditure.

The data collected show that farming is quite unprofitable in the province of Groningen, which technically is very highly developed.

Agricultural region	Number of farms investigated	Area (in hectares) Arable land	Grass-land	Total	Returns per hectare Gross	Net
Central meadow	12	183	229	412	363.99	16.79
Northern arable	145	5,885	869	6,754	412.37	—30.16
Northwestern	11	348	144	492	416.03	15.33
Central arable	12	370	78	448	390.98	—28.29
Klein-Oldambt	8	261	72	333	317.38	—41.55
New-Oldambt	30	1,532	169	1,701	373.66	—38.78
Old-Oldambt	15	518	106	624	358.26	—30.91
Wold	18	657	96	753	375.37	—33.39

This table indicates that farms are worked at a loss nearly everywhere in this highly important agricultural area. This is all the more remarkable when one remembers that the expenses do not include any remuneration for the managers. Since most of the agriculturists in Groningen own their land, such a situation may last for a long time before it becomes impossible. Because there are no profits from their industry, the farmers live upon the income from their ownership of land, *i.e.*, the rent value, which is not regarded as coming under the head of expenses in their case. From a general point of view this does not improve the situation, and the entrepreneur's failure to gain a reasonable profit remains a symptom of unsoundness. The relatively high scale of payment to agricultural laborers and the extremely intensive system of agriculture in this province undoubtedly affect the results. The figures for the province of Drenthe, which stands on a much lower level technically, and in which wages are only from one-third to one-half of those in Groningen, are much more favorable, as the following table indicates:

Agricultural region	Number of farms investigated	Arable land	Grass-land (in hectares)	Total	Returns per hectare Gross	Net
Sandy regions	3	13	36	49	306.49	64.33
Moors and sandy regions	2	16	22	38	367.09	49.19
Northern border communes	2	9	30	39	394.67	47.03
Southern border communes	4	14	48	62	434.91	41.45

The data regarding the northwestern sea-clay region in North Brabant, however, show that differences in cost of labor do not account for everything, since very high rates prevail both in wages and in expenses in this area, and yet, thanks to very general gross proceeds of 711.18 guilders and total outlays of 604.31 guilders, a net yield of 106.87 guilders per hectare was obtained. Differences in harvests and prices play a very important part. The poor proceeds from wheat lower the gross receipts of Groningen, whereas the good potato crop benefited North Brabant. Where, however, as in the case of Groningen, wages represent between 40 and 60 per cent of all expenses, this factor can hardly be overestimated in considering the profitableness of the undertakings.

Horticulture occupies a place midway between agriculture and industry, and in highly developed centers it is carried on in a manner akin to factory production. Horticulturists have become more and more independent of the influence of the climate and of the weather, and by developing the system of coöperative auction marts on a large scale they have themselves taken over the sale of their produce. Unlike most agriculturists, horticulturists not only grow products of the soil, but are also merchants well acquainted with the commercial aspect of their trade. Among the agricultural population the spirit of competition is not very strongly developed, but the reverse is the case in horticulture, which is closely connected with the greater evolution of commercial qualifications. Thus horticulturists, technically, socially, and economically, resemble industrialists and merchants rather than agriculturists properly so called.

The following branches compose horticulture: (a) the cultivation of vegetables; (b) the cultivation of seed; (c) the cultivation of fruit; (d) arboriculture; (e) flower-growing; and (f) bulb-growing.[12] Horticulture is the most intensive of all modes of cultivating the soil, and in some regions horticultural land is sold at prices equal to those paid for building sites in towns. The small size of horticultural enterprises is in keeping with this intensity, for the main point is not area, but the amount of capital and labor applied to each unit.

Some comparative figures will show this:

[12] *See* R. P. Bonthuis, *Tuinbouw,* in *De Nederlandsche Landbouw in het Tijdvak* 1813-1913, published by the Board of Agriculture, pp. 294-326.

Year	*Arable land*	*Permanent grassland*	*Horticultural land*
1913	882,255	1,221,876	81,460
1919	908,622	1,209,743	93,692
1924	891,118	1,253,877	99,850

Percentages of total area:

Year	*Arable land*	*Permanent grassland*	*Horticultural land*
1913	27.05	37.46	2.5
1919	27.84	37.07	2.87
1924	27.27	38.37	3.6

The comparatively small area occupied by horticulture is in inverse proportion to its importance. The fact that this area has increased by 44 per cent in spite of the War and its aftermath is a proof of the very remarkable vigor of this branch of trade which, because of its interest in exports, reacts so distinctly upon the commercial situation of the world. In 1910 and 1921 a special inquiry was made regarding use of the soil in the Netherlands; and some data which elucidate the growth of agriculture during this period may be given here.

The number of horticulturists amounted to 15,488 in 1910 and to 18,800 in 1921. The lowest class of holdings (0.05 to 0.15 hectares) was occupied by 534 in 1910 and by 576 in 1921, and the highest class (10 hectares and over) by 327 and 409, respectively, while the intervening group (between one and two hectares) was represented by the highest figures, *i.e.*, 4,746 establishments in 1910 and 5,830 in 1921. The average size of holdings shows a decrease in Groningen, North Holland, and North Brabant, *viz.*, 2.15 hectares in 1910 and 1.98 in 1921 for Groningen; 2.39 hectares against 2.36 in the same years for North Holland; and 2.82 hectares against 2.69 for North Brabant. In the other provinces the average size of holdings rose, the mean for the Kingdom in 1910 being 2.27 hectares as contrasted with 2.39 in 1921.

This development does not immediately imply increased prosperity, for horticulture was particularly affected by the difficulty of finding outlets and by the reduced purchasing capacity abroad. Since its products frequently seem to be luxuries, embargoes on its importations were imposed in many cases, especially by countries which hoped thus to improve their balance of payment and their rate of exchange.

The war years were favorable for various branches of horticulture, especially for the cultivators of vegetables and fruit, as is shown by the following amounts realized at the auction marts:

1912	*1915*	*1916*	*1917*	*1918*
		(*in guilders*)		
16,286,469	29,249,565	59,085,637	112,908,805	117,896,103

The quantities thus disposed of, however, do not represent a true standard for the increase of the incomes of horticulturists, since they were connected with government measures which permitted a number of commodities to be exported if they were sold in the auction marts, this being particularly the case during the transition from 1915 to 1916.

After 1919 the aspect changed, and there was a marked decline until 1924. In this instance also the inflation of the German monetary standard played a large part, as did the general impoverishment of Europe.

The amounts realized at the auction marts were as follows:

1919	*1920*	*1921*	*1922*	*1923*	*1924*
		(*in guilders*)			
80,959,036	67,315,383	74,530,348	54,675,332	54,287,037	80,237,766

The fall in the market is very obvious from the amounts realized for exports of white, savoy, and red cabbage: in 1921, 63,299 tons, valued at 4,468,000 guilders; in 1922, 71,495 tons valued at 2,286,000 guilders; and in 1923, 79,884 tons, valued at 2,288,000 guilders.

Another example of the difficulties which affected horticulture for many years is shown by the cultivation of bulbs, which is so important a branch of this occupation. Several countries closed their frontiers or admitted only a certain percentage of the normal quantities. In 1916 and the years following, matters came to such a pass that bulbs were purchased for fodder for cattle, while many cultivators began to grow vegetables, potatoes, and beans, and organized themselves for drying, preserving, and selling their produce in a coöperative body called the Codro. It was not until 1922 that exports of bulbs, amounting to 24,081,000 kilos, again approached the figure of 1913, when 24,997,000 kilos were shipped. If we com-

pare the export value of 1922, *viz.*, over 22.6 million guilders, with that of 13.6 million for 1912 (exports in 1912, 22,751,000 kilos), the result is not unsatisfactory even when we deduct 30 per cent for the reduced purchasing power of money, and the bad years appear to belong to the past. The cost of production, however, is much higher than before the War, especially as regards wages and fertilizers.

The upward curve, fortunately, continued in the following years, North America and Great Britain maintaining their position as the largest buyers, and exports to Scandinavia also being considerable, while in 1924 Germany again appeared in the market as a generous purchaser. The exports in 1923 were 24,951,270 kilos, valued at 26,382,646 guilders; and in 1924, 26,369,227 kilos, valued at 29,985,837 guilders.

It is not easy to tabulate industry concisely and lucidly because of its differentiation into a large number of enterprises and its great variety of products; and complete statistics of production and consumption have been published only since 1919. For a general survey it will be sufficient to give a few figures regarding issues on behalf of limited companies and public bodies, as well as statistics regarding the development of the former, because, apart from public credit, by far the majority of the bond issues concern industry, and to a certain extent reflect its position.

Description	*1913*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*
			(in thousands of guilders)				
Government bonds	7,000	609,940	897,192	674,128	130,440	225,000	102,057
Communal and provincial bonds	34,858	78,963	128,967	119,993	109,682	60,525	60,980
Bank shares	14,705	42,978	119,117	59,325	500	3,000	170
Bank bonds	4,000	5,900	1,680	2,700	975	5,500	1,500
Mortgage bank:							
shares	2,300	661	452	85	167	100	1,950
bonds	8,250	11,147	....	2,500	....	1,500	1,199
Colonial estate:							
shares	3,825	12,815	5,637	6,224	5,953	....	3,817
bonds	925	6,500	....	....	1,250	2,750	....
Rubber company:							
shares	3,675	700	3,550	5,840	500	....	4,350
bonds	....	500	....	4,800	....	....	....
Industrial:							
shares	16,974	41,234	118,525	65,909	8,138	4,260	1,563
bonds	2,800	5,275	23,540	48,542	53,108	24,750	7,500

Description	*1913*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*
			(*in thousands of guilders*)				
Trading company:							
shares	3,779	18,680	22,491	40,680	....	500	....
bonds	....	5,100	400	2,000	....	....	....
Mining company:							
shares	2,000	200	....	1,200	....	....	....
bonds	2,000	....	4,000	....	6,000	....	....
Oil company:							
shares	4,406	43,922	42,764	116,755	2,711	....	....
bonds	....	....	....	....	....	....	....
Shipping:							
shares	3,359	19,396	21,829	31,245	10,530	....	400
bonds	3,225	....	....	1,000	26,584	....	....
Tobacco shares	1,270	....	7,000	5,200	10,170	....	600
Sundry shares	1,473	1,582	4,528	28,473	3,143	300	2,642
Sundry bonds	985	1,125	5,435	32,200	14,773	850	4,205
Railway and tramway:							
shares	2,750	....	4,500	5,450	11,000	1,241	2,150
bonds	31,550	38,000	25,000	59,500	59,730	78,950	2,484
Total	156,109	944,618	1,436,607	1,313,749	455,354	409,226	197,567

These figures clearly show the progress of the depression. The year 1919 was one of great prosperity, and 1920, when shares were absorbed in enormous quantities by a ready market, was much the same, though there was a marked fall in other lines. Dull in 1921, the market was still more apathetic during the two years following, and increasing losses discouraged investors from purchasing shares. The bond market, on the other hand, then became more lively, though on a far narrower scale. The figures for industry are particularly representative in this respect, showing 118.5 million guilders invested in shares in 1919 as against 23.5 million in bonds, but only 4.26 million guilders invested in shares in 1922 as contrasted with 24.75 million in bonds. It is obvious that a given amount invested in bonds during a period of depression is very different in meaning from an approximately equal amount invested during a boom period. In 1923 the formidable collapse was reflected by the figure of slightly over 1.5 million guilders issued in industrial shares as compared with 7.5 million in bonds. These statistics clearly reveal the situation of trade as a whole after the War: a boom with no actual foundation was followed by a collapse which showed the reality of general impoverishment.

Since 1920 the official annual statistics have included the number of limited liability companies established during each year.

Year	*Number*	*Share capital*	*Subscribed capital* (*in thousands of guilders*)	*Paid-up capital*
1920	1,429*	1,085,739	428,957	307,584
1921	1,509†	716,850	351,822	313,837
1922	1,277	332,434	116,022	107,440
1923	1,622	251,016	97,505	90,488

* Including 32 companies whose subscribed capital was unknown, and 41 whose paid-up capital was not given.

† Including 31 companies whose subscribed capital was unknown, and 39 whose paid-up capital was not given.

Further figures are not yet known, but these few data clearly show that the spirit of enterprise which revealed itself primarily in this way was declining in 1921.

Of more interest are the statistics regarding the total number of limited liability companies established in the Netherlands, their paid-up capital, and their profitableness as shown by the dividends paid. Although, unfortunately, the available data do not extend beyond the period of the War, they serve to show how far the capital employed has, as a whole, been affected favorably or adversely by the War, since practically every enterprise of importance is incorporated as a limited liability company. This is almost the only way in which large sums of money can be accumulated by issuing shares and bonds, since the liability is limited to the amount of the shares, while the investing and speculating public is stimulated by the facilities offered by the bourses for dealing in such stocks.

The statistics include not only the limited liability companies, but also the private limited companies and groups other than the unimportant coöperative societies.

	Companies paying no dividends		*Companies paying dividends*		*Total*	
	Number	*Paid-up capital**	*Number*	*Paid-up capital** (*column 4*)	*Number*	*Paid-up capital** (*column 6*)
1913-1914	5,516	635,240	3,916	1,502,849	9,432	2,138,089
1914-1915	6,022	758,202	3,785	1,447,983	9,807	2,206,185
1915-1916	6,503	836,752	3,751	1,532,788	10,254	2,349,540
1916-1917	6,595	803,827	4,244	1,732,738	10,839	2,536,565
1917-1918	7,228	1,122,230	4,440	1,742,293	11,668	2,864,523

		Dividends paid	
	*Absolute amount**	*Percentage on column 4*	*Percentage on column 6*
1913-1914	192,092	12.78	8.98
1914-1915	179,071	12.37	8.12
1915-1916	193,440	12.62	8.16
1916-1917	279,825	16.15	11.03
1917-1918	279,764	16.06	9.77

* In thousands of guilders.

These figures show that the extra war profits which were made, especially during the first three years of hostilities, had only a restricted effect on the average yield of money invested in limited companies; a small group of privileged companies alone received real gain from them. The statistics draw our particular attention to the fact that the capital on which no dividends were paid increased during these years by over 76½ per cent, whereas that on which dividends were paid rose only approximately 15 per cent. As regards the amount of the dividends paid, it is sufficiently well known that large amounts were reserved, and that the actual profits exceeded the amounts indicated by the dividends. On the other hand, those reserves were employed in expanding the enterprises, especially between 1918 and 1920; and during the period of depression they were inadequate to cover losses in capital. As a matter of fact, they no longer existed in liquid form, and, being applied to expansion, they contributed to the capital risks of the undertakings concerned.

The problem of the capital wealth of a nation may be approached from different angles by laying stress either upon the actual stock of capital goods or on the profit obtained from them, and the same statement holds true of the decrease or the increase thereof.

If capital goods are considered, a standard for the movement of capital, especially in the case of industry and traffic, may be found in the production of crude iron and steel, since most capital goods, and particularly those which are immovable, are made in part from this raw material. The net production of crude iron, *i.e.*, that which remains after deducting what is needed for renewing capital already existing, has declined greatly since 1914, so that the level attained in 1925 was only that which prevailed before 1900; and in the case of steel the capital invested has fallen approximately to that of

1908. As Dr. Goudriaan has rightly remarked,[13] the consumption of iron and steel for war purposes in 1914-1918 should be added, but this consumption, which was very considerable indeed, should be deducted from the amount of such raw materials available for creating capital. In this connection we may state that there is a world shortage, but it is impossible to determine how this is apportioned among the various countries.[14]

We may, however, obtain some light from the number of horsepower of engines and the square meters of the heating surface of boilers. The following statistics from Dr. Goudriaan's report[15] compare the Netherlands, the United States, Sweden, and Switzerland. They give a favorable impression, but are conceivably affected by the very rapid increase of electrification, especially during the war years. It is difficult to determine whether they have been manipulated, as Goudriaan thinks; but in any event the problem here is simply the number of horsepower available.

The Netherlands		*United States*	
Year	*Number of square meters of heated boiler surface*	*Year*	*Thousands of horsepower primary engines*
1903	264,890	1909	18,675
1913	381,041	1914	22,471
1923	518,457	1919	29,567

For the Netherlands this means an average annual increase of 4.4 per cent for 1903-1913, and of 3.5 per cent for 1913-1923; and for the United States of 4 per cent for 1909-1914, and of 6.4 per cent for 1914-1919.

Sweden		*Switzerland*	
Year	*Thousands of kilowatt primary engines*	*Year*	*Thousands of horsepower primary engines (steam and water together)*
1913	1,223	1901	283
1922	1,781	1911	713
		1923	1,339

[13] *See* his *Preliminary Report to the Economic and Statistical Society* as to whether "a further reduction of wages is necessary for the recovery of production and the restriction of unemployment" (pp. 29-31).

[14] Goudriaan denies this shortage since the increment is still more rapid than the gain in population. For an increase of prosperity at the former rate, however, capital should be increasing, not decreasing.

[15] Goudriaan, *op. cit.*, p. 32.

For Sweden this signifies an annual increase of 5 per cent, and for Switzerland of 15 per cent for 1901-1911 and of 7.3 per cent for 1911-1923.

The supply of power to various branches of industry in the Netherlands also reveals constant progress, as is shown for 1919-1923 by another table of Dr. Goudriaan's.[16]

POWER OF PRIMARY ENGINES AS OF DECEMBER 31

	1919	*1920*	*1921*	*1922*	*1923*	*Average annual increase*
Soap works	1,593	1,600	2,070	2,283	2,639	14
Rubber factories	6,144	....	6,143	6,003	5,954	—1
Footwear factories	3,907	....	4,978	5,106	5,345	9
Iron and steel foundries	....	....	7,791	9,345	9,989	14
Shipbuilding yards	....	50,415	58,803	61,493	73,753	15
Engineering works	....	....	31,138	31,099	31,809	1
Bicycle works	....	....	1,126	1,216	1,349	9
Electric machine works	....	3,740	4,647	4,767	5,150	12
Bolt, nut, and nail works	....	....	6,917	6,921	6,924	0
Workshops	....	....	7,269	7,152	6,792	—3.2
Knitting mills	....	....	1,296	1,499	1,469	7
Flour and other mills	....	16,438	17,029	19,355	19,377	9
Potato-flour mills	....	13,131	13,189	13,548	13,548	1
Cocoa mills	....	11,481	14,033	16,193	16,242	14
Margarine works	....	10,300	9,515	10,321	10,776	1

For the Netherlands this table undoubtedly shows a considerable expansion of productive power in nine of the fifteen branches here enumerated. Goudriaan concludes that, considering retarded world development as shown by the course of iron and steel production,[17]

[16] Goudriaan, *op. cit.*, p. 33.

[17] Goudriaan calculates the stock of crude iron in 1904 at 810 million tons, and of steel at 450 million. From 1904 to 1914 the average annual increase was 5.4 and 11.1 per cent, respectively. In 1914 the stock amounted to 1,300 and 900 million tons, respectively, and from 1914 to 1924 the annual percentage of increase was 5.4 per cent and 2.6 per cent, respectively, or a reduction of the increase by 48 and 58 per cent, respectively. The gain in population also declined by 58 per cent during this second decade for the United States, Great Britain, France, Germany, and the Netherlands together.

immovable capital probably increased in the Netherlands more rapidly than before and consequently much more quickly than the average.

It would, however, be very rash to conclude that prosperity has gained merely because of this increment in immovable capital, however important it may be in itself. For a country like the Netherlands, which depends upon international trade for so large a part of its production, capital wealth and its increase are of little avail in a world of "retarded development."

With regard to floating capital the course of the discount market and of interest on loans against collateral will be of some significance.[18]

	The Netherlands		*Great Britain*		*United States*
Year	*Discount rate Netherlands Bank*	*Interest on loans against collateral*	*Discount rate Bank of England*	*Discount rate open market*	*Call money*
1913	4.51	4.09	4.75	4.39	3.20
1914	4.44	4.70	4.04	2.50	2.04
1915	4.75	3.85	5.	3.69	1.83
1916	4.50	2.64	5.47	5.23	2.41
1917	4.50	3.04	5.15	4.80	3.16
1918	4.50	3.64	5.	3.60	4.92
1919	4.50	3.98	5.15	3.96	6.51
1920	4.50	4.38	6.71	6.42	7.98
1921	4.50	3.64	6.10	5.35	5.95
1922	4.27	3.60	3.70	2.64	4.29
1923	4.03	3.46	3.49	2.75	5.25
1924	4.94	4.02	4.	3.50	3.6
1925 (1st half)	4.	2.49	4.65	4.25	3.

During the war years, money was plentiful, especially when it became more and more difficult and hazardous to replenish stocks, so that many merchants offered their trading capital to the money market unless they preferred to hoard it. Later on, during the boom years, there was often a great deal of stringency, and interest on loans sometimes rose to 6 per cent or even more. The present low rate does not indicate a surplus of liquid capital so much as a lack of enterprise owing to business depression.

To show the condition of the market for short credits during some

[18] Goudriaan, *op. cit.*, p. 39.

years we may cite the figures published in official annual reports by the largest banks, since their influence in this market also was greatly augmented by the considerable combines of banking concerns during the past twenty years. We have chosen, on the one hand, statistics of deposits, current balances on account, and bills payable, and, on the other hand, bills receivable (including Treasury paper), loans on collateral, advances against security call money, and advances in current accounts, the amounts being stated as of December 31 of the years considered.

Banks	*1919*			*1920*		
	Deposits	*Credit in current account*	*Bills payable*	*Deposits*	*Credit in current account*	*Bills payable*
	(*in thousands of guilders*)					
Amsterdamsche Bank	78,087	238,901	36,962	68,828	248,650	56,973
Bank-Associatie	10,854	29,963	15,128	10,352	38,197	14,961
Nederlandsche Handel-Maatschappij	76,050	204,767	15,119	80,054	247,620	42,704
Twentsche Bank	49,562	94,482	20,859	58,874	109,899	36,845
Rotterdamsche Bankvereeniging	52,578	375,899	43,198	69,984	388,659	42,217
Geldersche Crediet-vereeniging	22,243	44,401	....	18,000	41,250	....
Nationale Bankvereeniging	49,324	75,288	1,743	55,509	105,626	764
	1921			*1922*		
Amsterdamsche Bank	68,931	195,821	16,203	55,923	192,612	9,956
Bank-Associatie	10,258	24,201	4,334	3,285	9,802	700
Nederlandsche Handel-Maatschappij	57,900	196,428	15,056	54,890	121,748	10,611
Twentsche Bank	47,393	107,359	28,875	50,705	91,759	28,573
Rotterdamsche Bankvereeniging	32,841	254,407	38,336	36,633	195,718	39,243
Geldersche Crediet-vereeniging	18,498	36,261	....	14,415	29,074	....
Nationale Bankvereeniging	46,265	63,357	462	38,918	52,047	536

The first impression made by these figures is that after 1921, *i.e.*, the first year of the depression, the liquid assets of the banks fell rapidly, so that they were obliged to assume an attitude of increasing reserve in granting and renewing credits, this situation being aggravated by deterioration in the financial status of many of their debtors. The assets of these banks were divided as follows during the years under consideration:

Banks	1919 Bills receivable and Treasury paper	1919 Loans and advances on securities	1919 Debt in current account	1920 Bills receivable and Treasury paper	1920 Loans and advances on securities	1920 Debt in current account
Amsterdamsche Bank	92,051	80,910	176,953	95,909	91,860	213,443
Bank-Associatie	12,744	23,271	36,816	16,282	23,061	40,413
Nederlandsche Handel-Maatschappij	84,079	44,308	135,673	54,939	246,869	173,798
Twentsche Bank	56,825	36,605	80,488	73,754	37,819	127,869
Rotterdamsche Bankvereeniging	108,329	88,397	214,713	92,738	66,920	237,304
Geldersche Crediet-vereeniging	1,102	15,204	66,887	495	13,933	61,321
Nationale Bankvereeniging	13,811	21,943	96,099	15,874	22,159	110,714
	1921			1922		
Amsterdamsche Bank	110,374	61,842	151,057	114,485	59,301	144,853
Bank-Associatie	14,641	10,602	27,719	7,085	5,978	5,393
Nederlandsche Handel-Maatschappij	40,113	197,068	103,462	37,675	150,576	66,277
Twentsche Bank	84,191	30,378	92,101	78,847	27,919	87,791
Rotterdamsche Bankvereeniging	79,815	46,298	201,037	83,504	45,783	151,106
Geldersche Crediet-vereeniging	5,490	10,451	51,204	5,192	8,081	43,319
Nationale Bankvereeniging	17,668	15,410	71,758	18,851	11,117	64,254

The difficulties of the credit situation also affected long-term credits. Mortgage bonds issued by mortgage banks have always found great favor as investments for careful savers. These banks, however, were obliged to raise their interest rates continually in order to obtain the necessary funds for carrying on business, and it was not until 1923-1924 that the tide turned so that 5 per cent mortgage bonds were easily sold. The change is shown in the following table which gives the percentages of the three rates of interest for mortgage bonds on December 31, the total circulation fluctuating between 400 and 550 million guilders:[19]

Mortgage bonds	4 per cent	5 per cent	6 per cent
1918	48.17	10.53	..
1919	44.50	17.49	..
1920	43.29	16.51	4.02
1921	39.29	15.46	12.20
1922	36.35	17.26	12.96

[19] See *Maandschrift van het Centraal Bureau voor de Statistiek*, January 31, 1924, p. 16.

In ascertaining the condition of the capital market the statistics of the savings banks are not without importance. The most important of these institutions is that of the Government, regarding which the following figures may be given:[20]

Year	*Deposits* (*in thousands of guilders*)	*Withdrawals*	*Deposit books issued*	*Average balance to the credit of depositors*
1913	86,818	84,122	1,649,000	111.48
1914	74,595	78,377	1,671,000	110.43
1915	67,688	67,660	1,690,000	111.89
1916	85,556	72,689	1,730,000	119.56
1919	137,836	117,706	1,887,000	142.10
1920	124,983	126,781	1,908,000	143.03
1921	125,306	121,613	1,915,000	148.03
1922	123,176	115,725	1,932,000	154.26
1923	119,401	119,455	1,954,000	152.49

This picture of the savings of a large part of the population is not altogether favorable, for deposits declined after 1919, except in 1921, and withdrawals exceeded deposits both in 1920 and 1923.

A total deposit of less than 300 million guilders in the Government Postal Savings Bank is not large for a country like the Netherlands with seven million people. Denmark, which has less than half that population, shows about 550 million guilders for her Government Savings Bank, or approximately the total Netherlands figure for all savings banks, including those under private ownership. In 1921 the Netherlands had 390 institutions of the latter type, and of this number 314 supplied information. The total amount due from them was nearly 240 million guilders, and from the Government Postal Savings Bank almost 283.5 million guilders, or 523.5 million guilders in all.

The fact should not be overlooked, however, that in the Netherlands the Farmers' Loan Banks act as savings institutions, especially in the south. Accordingly, the following statistics may be given regarding the three (later two) Central Banks, which include the entire coöperative agricultural trade credit under the Raiffeisen system:

[20] *Ibid.*, p. 15.

Year (ending December 31)	*Deposits (in thousands of guilders)*
1913	50,475.
1918	191,392.5
1919	221,345.5
1920	231,061.3
1921	270,520.4
1922	287,460.3
1923	287,417.3

All the evidence thus far adduced would seem to show that the supply of capital goods, including liquid capital, is not so unfavorable as the economic distress during the years of war might have led us to expect, but the real test of general prosperity is whether capital has yielded adequate returns. In a society where the capitalistic system is paramount, that is, where the mainspring of production is furnished by private initiative and enterprise, the profitableness of the latter is a vital problem for the capital invested in it. Dr. Goudriaan[21] is perfectly justified in asserting that an output may be temporarily unprofitable and yet be quite sound, but he is equally right when he adds that "production which is permanently unprofitable does not as a rule exist for long." If the means of production are taken over by others in case of liquidation, that capital is preserved for the community, but such a transition seldom takes place in a way which means only a transfer without loss. In particular, immovable capital has continued to assume an increasingly specialized character, so that it is very difficult to employ it in some other branch of production to which depression has not yet penetrated. Even now stagnation in production means loss of capital, since production conditions both consumption and capital, and affects the latter primarily.

A barometer of prosperity is furnished by the statistics of the extreme case, bankruptcy, for which the following figures are available:

[21] *Maandschrift*, p. 19.

Year	*Number of failures registered during the year*
1913	1,830
1914	1,482
1915	1,390
1916	1,045
1917	891
1918	952
1919	1,092
1920	1,491
1921	2,264
1922	3,403*
1923	4,212

* See *Maandschrift,* January 31, 1924. In the *Faillissementsstatistiek* (No. 376, p. 9) the figure given is 3,265.

Whereas small failures with liabilities up to 5,000 guilders were represented in 1914 by 43.9 per cent of the total number, this percentage had fallen to 34 in 1922. On the other hand, the intermediate cases of between 10,000 and 50,000 guilders had risen from 18.5 per cent in 1914 to 30.9 per cent in 1922, and the large ones of between 100,000 and 200,000 guilders from 1.1 per cent in 1914 to 2.9 per cent in 1922. The very large ones of between 200,000 and 500,000 guilders and over show an ominous increase from 0.3 and 0.0 per cent in 1914 to 1.1 and 1.2 per cent, respectively, in 1922. Since 1919 there has been a trend from small failures to those larger and larger. When one remembers that, as a rule, a large enterprise employs proportionally more immovable capital than a small one, and that, therefore, the failure of an establishment controlling, for example, a capital of 10 million guilders inflicts graver injury on the community than the bankruptcy of ten establishments of one million guilders each, and is far more serious than the failure of one hundred of 100,000 each, the drift towards the larger groups is undoubtedly an unfavorable symptom.

The following table shows the totals of liabilities and assets:

Year	*Liabilities* (*in thousands of guilders*)	*Assets*	*Percentage of assets to liabilities*
1918	5,926	1,671	28.2
1919	9,305	2,324	25.
1920	11,483	2,810	24.58
1921	13,127	2,864	21.8
1922	27,137	5,825	21.46

Hitherto total liabilities of over 27 million had never been reached.

Bankruptcy is an extreme case; it gives an outline, but not a complete picture. There are many intermediate grades between a deficit, a decreased yield, and a full yield, and the progress of failures as shown by the figures here cited points to an adverse trend even in the case of the great majority of enterprises which have survived. It is impossible to say how many have been liquidated without bankruptcy; thus far the Netherlands has no statistics regarding trading and industrial establishments. That the number of liquidations and, to a much greater extent, that of retrenchments must have been very high, and must have far exceeded the cases of bankruptcy, is shown not merely by the universality and the long duration of the crisis which set in after 1920, the end of which does not yet appear to be in sight, but also by the figures regarding unemployment.

Thanks to unemployment insurance, which confers executive power on the trade unions, statistics in this regard have been greatly improved during recent years, especially after the Unemployment Decree of 1917; whereas the data of the preceding period are less complete, since at that time the Central Bureau did not know all the organizations which were actively engaged in this type of insurance.

Year	*Number of members whose unemployment was investigated*	*Average weekly number of unemployed*	*Percentage of unemployed*	*Average weekly number of days of unemployment*	*Index-number**
1913	.....	.....	4.7	.....	5. (1.4)
1914	.....	.....	12.4	.....	13.8 (7.)
1915	.....	.....	15.2	.....	12. (6.6)
1916	132,044	7,636	5.9	40,528	5.1 (2.7)
1917	147,818	14,209	8.8	57,512	6.5 (4.2)
1918	190,396	18,985	10.	85,235	7.5 (6.5)
1919	299,573	26,796	8.9	138,088	7.7 (7.5)
1920	400,216	28,812	7.2	140,155	5.8 (4.6)
1921	392,895	42,999	10.9	212,485	9. (7.3)
1922	353,635	44,528	12.6	233,375	11.
1923	298,892	38,206	12.8	200,240	11.2
1924	.....	.....	...	.....	8.8

* The unemployment index-number is the proportional percentage of weekly unemployment as compared with the maximum total number of days during which all persons whose unemployment has been investigated could have been idle during a week (*i.e.*, six times the number of persons). The figures in parentheses represent the index without the diamond industry.

The situation has not yet improved to any great extent and in February, 1925, the index-number still stood at 10. Unemployment has been abnormally high during these years in the important Amsterdam diamond industry, for which the index-numbers have been as follows:

1915	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*	*1924*
68.2	37.1	35.5	24.2	12.6	51.8	80.9	57.6	24.8	11.6

This luxury trade is obviously affected directly by the general economic situation, and the statistics conclusively show the improvement in the situation during the period of artificial revival (1919 and part of 1920), the record figure for unemployment being registered during 1921, a year of depression.

Next to the diamond workers, the large group of cigarmakers probably suffered most from unemployment, their index-number being 28.8 for 1921, and 34.2 for 1922. In February, 1925, 2,453 cigarmakers out of 11,866 were still without work, the index-number being 17.5.

We append a few figures regarding the average number of unemployed per week and the weekly number of days of idleness:

Year	*Number of unemployed per week*	*Percentage of unemployed per week*	*Number of unemployment days per week*
1915	15,511	14.6	76,432
1916	7,636	5.8	40,528
1917	14,209	9.6	57,512
1918	18,985	10.	85,235
1919	26,726	8.9	138,088
1920	28,812	7.2	140,155
1921	42,999	10.9	212,485
1922	44,528	12.6	233,375
1923	38,206	12.8	200,240

Any statement regarding the adequacy of the stock of capital, its maintenance, and its increase during this period must be tested by these statistics. Even granting that capital had not decreased, but had actually gained more rapidly than the population, the figures for unemployment, in the case of normal yield on capital, would have been less than a third of those recorded since 1918.

Mere capital is not enough, however necessary it may be, for equal importance attaches to its profitable employment, which al-

ways manifests itself in a direct and indirect demand for labor. If this normal function of capital decreases, it is tantamount, as regards immediate production, to nonexistence; and if such a situation lasts for a number of years in succession, the nation's capital itself declines constantly, and the term "dead capital" assumes an ominous significance which is seldom attributed to it. For, paradoxical as it may sound, capital is formed by its own wear and tear, and stagnation means a loss for which there is no compensation.

For the community the result of unemployment is twofold: production ceases, but consumption continues, as may clearly be deduced from the unemployment doles paid to those out of work.

Immediately upon the outbreak of the War, the Queen, energetically supported by Minister Treub, took the initiative in instituting a Royal National Relief Committee which sought from its very inception to keep its assistance distinct, so far as might be, from ordinary charity.[22] The Committee's purpose was not to aid the poor, but to give all possible help to victims of the war crisis in their difficulties. Unemployment was to be checked by grants-in-aid to establishments suffering from the crisis, and the consequences of unavoidable idleness were able to be relieved. Although direct assistance to the unemployed was not the main object, at least in the beginning, the Committee should be considered chiefly from the point of view of unemployment relief. At first very large amounts came in, and the Queen set the example by two gifts of 20,000 and 100,000 guilders. The disbursements of the Royal National Relief Committee amounted to about 25,540,000 guilders from 1914 through 1919. During the first few years practically all the revenue was derived from private benefactions, but in 1918 and 1919 the Committee depended almost exclusively upon government subsidies, these being the very years during which the largest amounts were paid out, 7,340,000 guilders in 1918 and 12,648,000 in 1919.

With regard to the Unemployment Funds we must discriminate between the periods before and after the Unemployment Decree of 1917.[23]

[22] *See* M. W. F. Treub, *Oorlogstijd, Herinneringen en Indrukken,* pp. 115-145.

[23] See *Sociaal Jaarboek,* 1918, II, pp. 45 *et seq.;* pp. 71 *et seq.;* and *Maandschrift van het Centraal Bureau,* 1923, pp. 28 *et seq.*

DISTRIBUTION OF EXPENDITURE BEFORE THE UNEMPLOYMENT DECREE OF 1917

Year	*Total relief paid*	*For account of the funds*	*Contributed by the communes*	*Contributed by the Government*
		(in thousands of guilders)		
1913	386.8	335.7	51.1	....
1914	1,822.6	905.4	361.5	555.7
1915	2,498.7	146.2	1,095.5	1,257.
1916	593.	103.7	237.2	252.2
1917*	522.6	268.9	128.2	125.4
1918*	110.4	45.2	36.9	36.3

* These figures do not concern all Unemployment Funds, but only those subsidized by the Government and the communes in accordance with the so-called Transition Regulation.

The year 1915 already shows the exhaustion of the Unemployment Funds and the change from insurance official relief, although the old term was still retained. Thus the great masses entertained the mistaken idea that they themselves financed the affair, though this became less and less true.

SURVEY OF UNEMPLOYMENT FUNDS OF UNIONS SUBSIDIZED UNDER THE UNEMPLOYMENT DECREE OF 1917

(in thousands of guilders)

Year	*Total relief paid*	*Total revenue*	*Contributed by members*	*Subsidies paid by communes*	*Subsidies and advances for government account*
1917	130.4	95.2	48.4	23.4	23.4
1918	988.5	994.5	497.3	243.6	243.6
1919	2,778.3	3,973.5	1,152.5	914.2	1,906.8
1920	15,324.6	15,186.2	2,704.2	2,615.3	9,866.7
1921	15,409.4	13,568.2	3,252.6	1,808.5	8,507.1
1922	12,540.9	12,101.7	3,889.4	1,947.6	4,255.4
1923	7,142.7	8,868.3	3,640.	2,558.4	2,592.2

To this should be added the communes' special grants-in-aid of more than 1.7 million guilders in 1920 and 1922. The amounts mentioned above concerned only the subsidizing of unemployment insurance, but by no means exhausted the expenditure for unemployment

relief, since the Government spent the following sums on relief works and on extension of employment:

1919	*1920*	*1921*	*1922*	*1923*
	(in thousands of guilders)			
199.6	1,759.7	4,109.9	3,756.1	4,098.2

To this must be added half-pay allowances during these years, totaling 877,800 guilders, grants to Netherlands workmen employed in Germany to meet the depreciation of German currency, totaling 2,031,200 guilders, and government expenditure of 8,010.3 guilders, distributed as follows:

1919	*1920*	*1921*	*1922*	*1923*
	(in thousands of guilders)			
64.	319.7	2,122.8	3,655.3	1,848.5

During these same years the communes spent 454,500 guilders on half-pay allowances and 494,900 guilders on grants to counteract depreciation of the mark.

Apart from the unemployment relief paid out by the Royal National Relief Committee, the totals for the Kingdom from 1914 to 1923 (including 52,000 guilders for displacement of labor) were 48,302,700 guilders, or, with the addition of poor relief, 56,312,500 guilders. The totals supplied by the communes (including 35,700 guilders for displacement of labor) amounted to 14,675,100 guilders. The Government and the communes together, therefore, have spent 62,977,800 guilders on unemployment relief between 1914 and 1923, and 70,987,600 guilders on unemployment plus poor relief.

The system of insurance with government and communal subsidies has been a complete failure, partly because of the long duration of the crisis; and after 1921 special grants-in-aid were allowed by the Government to such Unemployment Funds as were unable to carry out their obligations under their regulations. Since the State subsidy of 100 per cent of the contributions of the members very often proved insufficient to guarantee the regular operations of the Funds, the Government decided in 1923 to grant an increase in cases where it might appear highly probable that the allowance of

100 per cent would not be adequate, the subsidies being raised generally to 150 per cent, and in very special instances to 200 per cent.

Despite good intentions, unemployment relief, which started with the institution of the Royal National Relief Committee, did not, on the whole, follow sound lines. The idea that the system was one of insurance strengthened the conviction of workingmen that they had a right to relief, and many of them relegated to the background any recognition of the existence of duties as well, primarily the moral obligation of looking for other employment. Professional idlers now appeared, and, with the progressive demoralization, the false belief became increasingly current that work could not be done for wages which did not actually exceed what was paid for labor less the unemployment dole. Supervision was left almost entirely to the trade unions which paid out the doles, although there were funds apart from these organizations; but their control was insufficient and improperly organized. As a matter of fact, the trade unions had an interest in securing as many members as possible, and the inducement of unemployment funds as a factor in increasing membership was used to the end with slight regard for the quality of the new accessions. Tens of thousands joined solely for the dole to which they became entitled after six months in case of unemployment.

The following table shows the growth of the trade unions, central organizations, and trade leagues from 1913 to 1923.[24]

Trade Unions and Central Organizations

Year	*Number of trade unions*	*Total number of members*	*Number of organizations*	*Number of unions or sections*	*Number of members*	*Percentage of members of the organized total*
1913	3,886	233,788	5	1,386	101,428	43.31
1914	4,265	265,985	5	1,893	137,893	51.84
1915	4,417	273,445	5	2,149	149,101	54.53
1916	4,613	298,943	5	2,321	170,418	57.07
1917	5,092	352,338	5	2,929	224,223	63.64
1918	5,692	420,522	5	3,456	287,458	68.36
1919	6,805	514,633	5	4,396	373,249	72.53
1920	8,728	683,468	5	6,255	547,220	80.07
1921	9,201	651,215	5	6,996	525,814	80.74
1922	9,137	640,044	5	6,882	511,795	79.96
1923	8,894	571,973	5	6,479	446,066	77.99

[24] *Jaarcijfers*, 1922, p. 95.

	Trade Leagues			
Year	*Number of leagues*	*Number of leagues or sections*	*Number of members*	*Percentage of members of the organized total*
1913	264	3,354	197,088	84.30
1914	200	3,812	229,775	86.38
1915	201	3,993	239,476	87.58
1916	200	4,195	264,124	83.36
1917	199	4,718	317,964	90.25
1918	209	5,355	387,361	92.11
1919	216	6,468	479,350	93.14
1920	248	8,418	650,114	95.12
1921	253	8,910	619,657	95.15
1922	250	8,851	610,161	95.33
1923	246	8,603	542,727	94.89

The enormous rise in the number of organizations of this type found its main cause in the system of unemployment relief. The decline which began in 1921 was due to the commencement of the depression connected with the increasing difficulty which boards of trade unions and leagues encountered in maintaining their power as trade and commerce shrank. Tens of thousands of disappointed workmen turned their backs upon their organizations when direct advantage could no longer be reaped. Stress was now laid on the opposite policy of pragmatic success which the trade unions and central associations had put into action during and after the War. They had become more and more aggressive and had fallen largely under political influence. A certain dislike of bureaucracy, which made its appearance with the system of "exempts," *i.e.*, salaried members of boards, and which increased expenses, was also a factor in the decrease of members. Such officials are not free, for their position obliges them to take a one-sided view of social and economic matters, and to give biased guidance to the great masses of workmen whose confidence is contingent upon results which are directly tangible. Trade and the labor movement, however, need above all else far-sighted leaders; only thus is it possible to face actual situations and to accept sacrifices for the sake of better conditions in the future.

Unfortunately the Government did not set a good example. Its scheme of assistance without thorough supervision undermined the

sense of responsibility in the case of many;[25] and when working-time was reduced to the normal forty-five-hour week—which in the long run proved impracticable—words were sometimes heard from the government benches which might imply that toil itself was a necessary evil which ought to be limited by a truly social labor law, and this at a time when nothing was so necessary as increased exertion and frugality to recoup as soon as possible the loss of prosperity during the period of war. Those who argued in this latter sense were very quickly suspected of serving the special interests of capitalism, rather than the general weal. The Government assumed an attitude of feeble complaisance towards this "democratic" mode of thought, which prevailed especially (but by no means exclusively) among socialists and communists. They seemed to have no idea whatever of the unprecedented difficulties that beset the indispensable class of entrepreneurs. This was evident *inter alia* from their policy in regard to wages, which mocked at economic possibilities and inculcated false notions in the minds of workmen employed in private enterprise regarding what might be possible there.

A Royal Decree of February 14, 1920, fixed regulations governing the conditions of labor for workmen in the employ of the Government.[26] This disregarded the indirect advantages of government service, and included a clause to the effect that minimum and maximum time-wages must be determined in such a way that payment for a working week of normal length should be at least equal to the local standard of wages. The Decree also contained very favorable arrangements regarding piecework and contract labor, which must amount in all cases to time-wages at least, unless negligence could be proved. Overtime from 10 P.M. to midnight was to be paid 50 per cent extra, and from midnight to 5 A.M., as well as all Sunday labor, 100 per cent extra. In case of illness or accident, full-time wages were paid for more than a year if medical examination gave hope of recovery; but if there was no chance of this, the allowance after dismissal amounted to 70 per cent of the time-wages. There were also very liberal regulations regarding grants for medical aid, treatment in sanatoria at government expense in case of tuberculosis, leave of absence with full pay, etc. When the depression came in that

[25] *See* R. A. Fockema, *De Werkloosheid en hare Bestrijding* and *De Werkloosheid en de voor Nederland dreigende oeconomische Ondergang.*

[26] *Maandschrift,* 1920, pp. 362-363.

same year, such conditions of labor had become impossible for most enterprises, but the regulations for government service remained in force. In particular, the clause under which wages must be at least equal to the local standards was apt, when the general situation became worse, to give workmen in government employ a still more favorable position than they already enjoyed.

Obviously the financial assistance granted to the unemployed by government and communal subventions impeded the supply of labor and, therefore, restricted the adaptation of wages to the declining profitableness of enterprise, thus making the crisis still more grave. Indirectly government intervention in the housing problem and the erection of schools for private education raised wages in the building trades to an unprecedented level. Private construction became impossible, and rents on a commercial basis were beyond the means of most of the working class, so that a large share of interest and depreciation of building costs was charged to the State, *i.e.*, to the taxpayer. The wages in the building trades and the artificial depression of rents by law prevented private enterprise from carrying out its task of constructing houses, so that they could be erected only with the aid of government subsidies; and the shortage of dwellings in the large cities, increasing every month, assumed the proportions of a national catastrophe. Governmental and communal supervision of house-building likewise became more and more exacting from the point of view of welfare and hygiene; and, as a consequence, the burden placed upon the taxpayer's shoulders was unnecessarily and most uneconomically increased. A time of increasing impoverishment and economic exhaustion was, indeed, particularly unsuited for additional expenditure on behalf of reforms in popular housing.

As in so many other spheres of social development, there was an intense struggle, destructive in its consequences, between the constantly increasing exigencies regarding the standard of life and the steadily diminishing possibility of meeting even part of them. The failure to perceive realities, as shown in the housing problem, was not a monopoly of the labor classes; but the lack of economic insight was less excusable when it was observed in government circles, where it was manifested by an expenditure of public funds which often was quite injudicious. One of the largest newspapers, the *Nieuwe Rotterdamsche Courant*, waged a strenuous campaign against the dwelling-house reformers and the Minister of Labor in favor of houses

with closet-beds, a type which was quite practicable economically and much more in keeping with the financial resources of the people in general, even though it did not meet every idealistic requirement. In connection with the dwelling-house problem we quite agree with the following opinion expressed by Professor Treub, formerly Minister of Finance: "The most fatal antithesis consequent upon the War is that, on the one hand, it has enormously raised the exigencies of labor regarding their standard of life and, on the other hand, has rendered unattainable even the pre-war scale of living."[27]

The tremendous expenditure on popular housing consequent upon the years of crisis may be seen from the following table.[28] In this connection attention should be called to the fact that the main subsidy was granted in the shape of government advances to the communes; but since these do not perform the actual construction, they transfer the funds to building societies on condition that they will pay interest and amortization. Heavy capital losses are bound to occur in regard to these advances, since the building societies cannot possibly meet their financial obligations from rents. These houses were built during the most costly years and on a huge scale for the very reason that private builders had been obliged to withdraw altogether because of the losses which were sure to result from the mere nature of the case. If the societies had been able to pay a normal rate of interest plus amortization from rents received, the position would have been quite different. The entire scheme really meant building with the certainty of loss. Thus the word "subsidy" more or less covered a deficit, because the lenders, *i.e.*, the Government, knew beforehand that they must deal with debtors who would be unable to meet their engagements in full. As a matter of fact, the Housing Act opens the possibility, even in normal years, of obtaining subventions from the Treasury to the communes for the payment of annuities which may not exceed seventy-five in number. This means simply remission of debt to the amounts of the grants in question. It is still too early to estimate the Government's losses on the building-crisis scheme, but the decline in the value of houses since 1921 is an inauspicious omen; and it hardly seems possible for the Government to transfer the difficulty to the communes, which for the most part have acted merely as intermediaries.

[27] M. W. F. Treub, *Vragen van dezen Tijd*, p. 66.

[28] *See* p. 152.

Year	Number of societies, companies, and foundations working exclusively for popular housing and recognized as such	Advances granted to communes by the Government* on behalf of popular housing for the account of those communes			for enabling those communes to grant equal advances to recognized societies, etc.		
		Number of communes	Number of advances	Amount of the advances (in guilders)	Number of communes	Number of advances	Amount of advances (in guilders)
1913	78	11	11	157,000	63	79	8,158,000
1914	81	15	20	166,000	90	115	11,324,000
1915	36	20	24	2,193,000	74	89	10,625,000
1916	63	20	21	1,311,000	55	73	9,471,000
1917	79	32	39	21,234,000	77	104	16,484,000
1918	103	30	43	6,447,000	102	144	36,708,000
1919	249	54	71	16,320,000	189	302	73,978,000
1920	357	71	99	26,203,000	287	448	124,903,000
1921	31	93	247	31,755,000	356	1,199	142,471,000
1922	(total of advances granted was 45,808,000 guilders. The figures for each separate heading are not known)						
1923	..	30	63	11,401,000	125	301	15,139,000

* Drawn from *Maandschrift*, 1923, p. 10; 1924, p. 18.

If we leave out of consideration the years 1913 and 1914, which are to be regarded as normal in this connection, the total amount of government advances to the communes on behalf of their own construction and on behalf of building by societies appears to have been 592,451,000 guilders. To this must be added considerable amounts for advances on houses built with a bonus. As early as 1917 the Royal National Relief Committee had begun to subsidize the construction of dwellings for the middle class at a maximum of 25 per cent of the cost, and by 1919 they had thus expended 1,125,000 guilders. The cost of building increased, however, to such an extent that 25 per cent seemed insufficient for stimulating private enterprise, and in 1918 the Government accordingly assumed control of the matter.

A new scheme of grants was submitted by a Royal Decree of July 24, 1918, which was amended by another decree of November 10, 1919, the object being the furtherance of private house-building for the laboring and lower middle classes. The Government was to furnish thrice the amount made available by the communes, but the total grants-in-aid might not exceed the difference between the actual building costs and one and a half times the expense of the scheme if it had been carried out in 1914. Still another plan was introduced by a Royal Decree of November 8, 1920, thus demonstrating the wavering attitude of the Government in this urgent problem. By it houses with a maximum content of 450 cubic meters received a bonus of 20 guilders per square meter of the area of the building and 2,000 guilders per dwelling; and manufacturers were able to obtain for the homes of their staffs a premium of 15 guilders per square meter up to a maximum of 1,500 guilders, though a higher tariff was fixed for Amsterdam. The Government also made 5 per cent mortgages available for fifteen years at the very high rate of 90 per cent of the difference between the actual cost and the premium. A further regulation of April 1, 1921, set the maximum bonus at 1,700 guilders per house and the maximum mortgage at 6,000 guilders.[29] These advances came to an end on January 1, 1922, when several times ten million guilders had been granted. The budget of 1923 appropriated 40 million guilders, and that for 1924

[29] See *Nederlandsche Institut voor Volkshuisvesting*, pp. 61 *et seq.* (Report by M. J. van den Tempel.)

included 6.5 million guilders on account of engagements made prior to January 1, 1922. The total advances promised amounted to more than 58 million guilders,[30] and to this sum must be added the premiums, of which 20 million guilders were still due on January 1, 1922, while the budget for 1923 appropriated another 9 million guilders for this purpose, and the budget of 1924 included 11 million guilders under the same heading.

Although private building enterprise was roused from its lethargy at the cost of several million guilders, this was only the artificial result of absurdly artificial interference. If there had been the slightest conception of the effect of supply and demand, and if profits on building had not been opposed from the very first in order to give direct benefits to the tenants with small regard to their future interests, no necessity would have arisen for a corrective which was both expensive and incomplete. When building with State aid began in 1915 and 1916, wages soon rose to 1.25 guilders per hour and even more, but only about 0.54 guilder was paid by private enterprise. Obviously this state of affairs became impossible. In Amsterdam, for example, 1,205 out of 1,353 houses had been built privately in 1910, and in 1914 this was the case with 1,777 out of 2,359, but in 1918 it was true only of 130 out of 1,401. Despite the millions spent by State intervention, the rapid gain in population necessarily aggravated the shortage of houses, as was shown by conditions in Rotterdam, the second city of the Kingdom, where 3,381 houses out of 3,635 were built by private enterprise in 1910, as constrasted with 213 out of 1,763 in 1918.[31] Thus the socialization of the building trade had an effect diametrically opposite to the beneficial results which it sought in the interests of the people. It proved to be a complete fiasco which duped tenants, taxpayers, and builders alike.

[30] See *Waarschuwende Cijfers uit de Staatsfinancien,* published by the Central Retrenchment Committee of the Netherlands Society for Trade and Industry, p. 11.

[31] Cf. *Sociaal Jaarboek voor Nederland,* III, p. 350.

CHAPTER II

HIGH PRICES AND WAGES

THE theory which finds a close connection between wages and the prices of many commodities, including the prime necessities of life, has long been known, although it was a moot question whether the dominant factor was the cost of production or the price. The War and the crisis have given visible demonstration of this bond; and, in particular, those countries whose money showed great depreciation saw a rivalry between high prices and wages which caused grave anxiety to producers and consumers alike because of a vicious circle which profited only certain individuals.

Even the few countries which, like the Netherlands, escaped excessive financial fluctuation and real inflation, were obliged to contend with rising prices, partly because of conditions governing the production of goods and partly because of the monetary situation.

It may be assumed, on cogent principles of theory, that the position of the guilder was to some extent a cause of high prices in the Netherlands. The outstanding bank notes, drafts, and current account balances of the Netherlands Bank which combined to represent the liabilities immediately claimable, and also the gold and silver coin and bullion held in reserve to meet these liabilities during the War and the crisis, are shown in the following table:

Year	*Bank notes in circulation*	*Bank drafts*	*Balances in current account (in guilders)*	*Gold (coin and bullion)*	*Silver (coin)*
July 25, 1914	310,437,275	1,460,544	4,737,223	162,113,682	8,228,004
August 8, 1914	461,120,505	1,368,302	29,642,605	161,978,928	641,814
September 15, 1917	787,108,085	2,690,306	80,144,927	676,779,917	7,310,325
August 27, 1923	931,910,310	646,098	33,986,504	581,794,518	10,955,707
September 28, 1925	878,563,575	1,200,639	33,601,640	418,354,976	23,432,114

The heavy increase in the circulation of bank notes was due to a combination of two factors: the expansion of credit, especially at the beginning of the War; and, subsequently, the enormous augmentation in the stock of gold because of the fact that the belligerents, particularly Germany, desired to pay for imports in gold, and

not in goods. The effect was the same, and the gold in its turn caused the depreciation of the guilder, for although this was not redeemable in specie, its circulation was augmented with every sale of gold to the Bank. The increase in the medium of exchange was simultaneous with a decline in the output of goods and in traffic, since production was mainly on a cash basis and, therefore, on a narrower foundation than it would have been if supported by credit. Moreover, the stocks of merchandise diminished because of the enormous increase of consumption, especially, though not exclusively, on account of the mobilization. There was, therefore, a reduced need of money, whereas the supply of it rose constantly. Dr. Vissering, the president of the Netherlands Bank, pointed out at that time that "a large part" of the notes were never in circulation but were kept back by their holders, while a higher level of prices would involve more demand for money. The actual amount thus hoarded has, however, not been determined, and the loss of interest must have made such a course merely temporary, so that the notes were bound to come into circulation, though somewhat later on. It is likewise true that a higher level of prices increases the demand for money, although the need is less than proportionate, since otherwise the requirements would immediately check depreciation regardless of the scale of increase in the amount in circulation. This, however, is contrary to all experience, so that one cannot reasonably deny that the guilder depreciated, partly because of its abundance.

One of the main functions of money, its elasticity as a guarantee of its fixed value, did not operate after the beginning of the War. It is true that credit was elastic, but the requirements laid upon it are not the same as those which the community demands from money as a medium of exchange and payment. Thus the abundance of media of exchange, the shrinkage of production and traffic, and the increased consumption coöperated to depreciate money, the effect being a progressive rise in prices. In this regard the following index-numbers[1] of the cost of living for workmen's families in Amsterdam are instructive:

[1] *Maandschrift van de Centraal Bureau,* 1924, p. 814.

Year	*Index-numbers based upon the standard of living in 1911 and of the level of prices in 1911-1913*	*Index-numbers based upon the standard of living and the level of prices in March, 1920*	*Calculated index-numbers, the rise or decline being based upon the standard of living in March, 1920, applied to the index-numbers for the same month in the first column*
1911-1913	100.		
February-March, 1917	132.3		
February-March, 1918	141.8		
March, 1919	183.8		
March, 1920	213.7	100.	213.7
September, 1920		106.8	228.3
March, 1921		98.2	209.8
March, 1922		89.8	191.9
March, 1923		80.7	172.5
March, 1924		83.8	179.1

In the most fertile part of the province of Groningen an agricultural laborer's family consisting of husband, wife, and five children less than twelve years of age made the following expenditure:[2]

	1912	*1916*	*1922*	*1924*
		(*in guilders*)		
Expenditure	533.75	817.51½	963.14	990.14½
Annual wages	495.11½	798.16	1,020.17	1,011.34

The outlay for house rent had risen from 42.50 to 80 guilders, for footwear from 20.47 to 47.13 guilders; for clothing from 30.80 to 71.30 guilders, for rye bread from 48.48 to 84.84 guilders, and for potatoes and vegetables, although home grown, from 36.72½ to 65.20.

Naturally workingmen were not the only class to be affected by high prices; but while in their case the trade unions quickly compelled an adjustment of money-wages, other groups of the population could do little or nothing in this respect, with the result that large strata of society were obliged to lower their standard of living.

The large category of all grades of officials and teachers is included among those who were far less able to make adjustment because of the relative fixity of their money income. Their stipends were always raised too late, and after 1922 they again took a down-

[2] *Maandschrift*, 1925, p. 245.

ward course. It is of interest, therefore, to investigate also the expenditure of a Rotterdam official's family, including two children, a maid, and a charwoman each week:[3]

	1908-1913		*1914-1919* (*in guilders*)		*1920*		*1921*	
		percentage		*percentage*		*percentage*		*percentage*
Food	1,148	28	1,642	23.5	1,878	18.7	2,115	19.7
Clothing	354	8.5	525	7.5	1,052	10.5	796	7.4
House rent	591	14.5	1,005	14.5	1,400	13.9	1,400	13
Taxes	283	7	652	9.5	1,481	14.8	1,939	18
Servants	217	5.5	308	4.5	366	3.6	526	4.9
Sundries	1,510	26.5	2,904	40.5	3,860	38.5	3,977	37
Total	4,103	100	7,036	100	10,037	100	10,753	100

	1922		*1923*		*1924*	
		percentage		*percentage*		*percentage*
Food	1,760	17.2	1,639	15.3	1,836	16.9
Clothing	655	6.4	795	7.4	728	6.7
House rent	1,400	13.7	1,400	13.1	1,400	12.9
Taxes	1,663	16.2	1,425	13.3	1,447	13.3
Servants	496	4.8	451	4.2	507	4.7
Sundries	4,297	41.7	5,005	46.7	4,925	45.5
Total	10,271	100	10,715	100	10,843	100

Here the increase in the rubric of taxation is particularly conspicuous, for although it has not maintained the height which it reached in 1921, it represents nearly twice the percentage of 1908-1913. If a budget like the one under consideration is still subject to 13.3 per cent for taxes, saving becomes well-nigh impossible, so that the economic progress of the family is much hampered. The heavy increase of "sundries" in 1923 is connected with a circumstance unknown to a workingman's family, the university course of a son. Such an item of expenditure is as customary in higher official circles as its increased burden on the total budget is abnormal. These figures include no reserves for the risks of life except when the individuals in question possess private means; and under the circumstances the accumulation of such reserves is out of the question unless the son is withdrawn from the university, an expedient which is scarcely to be recommended if his mental capacity is normal.

[3] *Maandschrift*, 1925, p. 344.

The course of wholesale prices of merchandise is given in the following table:[4]

Year	*General index-numbers for 48 articles*	*Index-numbers for 28 articles of food and the like*
	(*1913 = 100*)	
1914	109	112
1915	146	148
1916	224	232
1917	276	258
1918	276	287
1919	304	296
1920	292	259
1921	182	187
1922	160	160
1923	151	143

These general index-numbers are computed from the relative figures of the prices for wheat, rye, barley, oats, maize, rice, macaroni, bran, pease, sago, potatoes, linseed oil, sugar (including excise), coffee, tea, cocoa, pepper, alcohol, refined salt, beef, veal, mutton, and pork, eggs, milk, cheese, butter, margarine, candles, raw cotton, ammonium sulphate, flax, hemp, wood, horse and cow hides, leather, coal, coke, iron, tin, silver, turpentine, petroleum, resin, bricks, and print-paper. The number and importance are large enough to give some idea of the consequences of high prices paid by the people as a whole.

With regard to retail prices, the index-numbers of the necessities of life at Amsterdam may be taken as typical:[5]

	1914	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*	*June, 1924*	*Nov., 1924*	*Dec., 1924*	*May, 1925*
	(*1913 = 100*)												
Bread	106	115	147	162	184	212	186	147	141	141	151	151	168
Other foods made from cereals, and grain-chandler's wares	107	135	175	148	195	224	165	157	139	156	162	158	146
Milk and cheese	103	114	129	160	173	182	196	142	147	135	177	177	138
Meat	99	107	103	197	265	240	209	123	116	119	131	131	141
Fats	103	125	168	183	190	222	165	151	146	145	150	151	145
Groceries and luxuries	100	136	187	212	209	206	166	153	160	150	155	154	153
Average	103	128	164	178	201	214	174	150	146	146	157	156	148

[4] *Jaarcijfers,* 1923-1924, p. 109.

[5] *Maandschrift,* 1925, p. 343.

A few concrete figures[6] regarding retail prices at Amsterdam will elucidate the index-numbers here given. They were supplied by the coöperative societies, and are, therefore, probably rather low.

	1913	*1915*	*1917*	*1919*	*1920*	*1921*	*1922*	*1923*
				(*per liter*)				
Beans (brown)	22.5	24.5	23.	21.5	32.5	28.5	42.	28.
Beans (white)	23.5	31.	74.	33.5	51.	36.5	39.5	35.
Maple peas	26.5	35.	53.	40.5	39.	39.5	34.	32.5
Green peas	21.5	25.5	23.5	21.5	32.5	29.5	28.5	27.
Groats	20.	25.	22.	40.	41.	34.	24.	20.5
				(*per ½ kilo*)				
Cheese (Leyden)	48.5	53.	80.	92.	103.	107.	77.5	80.
Cheese (cream)	50.	55.5	59.	91.	108.	113.5	80.	85.
Coffee	77.5	75.	91.5	138.	124.	106.	103.	104.5
Margarine	54.	60.	73.5	80.	86.5	74.5	70.	70.
Wheat flour	9.5	13.	18.	22.	28.5	19.5	14.	13.
Rice	16.5	18.	25.	25.5	40.5	23.5	21.	22.5
Sugar (brown)	23.5	29.5	32.5	39.	58.	41.5	32.	38.
Sugar (white)	25.5	29.	31.	33.5	51.5	36.	29.	34.
Tea	1.17½	1.17½	1.43½	1.31½	1.37½	1.35	1.35	1.55
Soap (soft)	11.	16.	14.	36.	38.5	16.5	17.5	18. (Arnhem)
Salt	4.	4.5	5.5	8.	9.	7.	7.	6.

We have now made a sufficient survey of the course of prices for the principal commodities. The net impression is that the average level is still about 50 per cent higher than before the War, or that, in other words, the purchasing power of the guilder has fallen by about one-third since August, 1914. Some account of the course of wages must now be given. The depreciation of money is still considerable, although it has much improved since it reached its lowest point of about 40 per cent, which connotes an actual loss of 60 per cent. The continued existence of depreciation, despite the abolition of the embargo on the export of gold on April 29, 1925, and the reëstablishment of the gold parity of the guilder, is the surest proof that gold itself has by no means escaped its influence. The loss of value of gold is due far less to its increased output than to general impoverishment in respect of other goods.

Except in the case of a few privileged classes, wages failed to keep pace with the rise of prices during the War. In the Netherlands, however, as elsewhere, the deceptive disguise of money long made it difficult to perceive the true situation of general impoverishment. Accordingly, optimism was rampant, and this state of mind mani-

[6] *Jaarcijfers,* 1923-1924, p. 114.

fested itself in an aversion to retrenchment either in Government or in private affairs, and in too ready adoption of expensive social measures. Yet it is impossible to deny that, as early as 1917-1918, the large majority of the population was obliged to adopt a more frugal mode of life than they had been able to maintain even during the first years of the War.

In 1911 the Inspection of Labor instituted an investigation of expenditure in workmen's families, and this was repeated in 1917 and 1918 by the Statistical Bureau of Amsterdam. The data thus obtained prove that, as compared with 1911, the outlay necessary to keep the same real income would have risen by 32 and 42 per cent, respectively, in February-March and in August, 1917, and by 63 and 82 per cent, respectively, in February-March and August-September, 1918. The reduced standard of living, however, caused the expenditure in money to increase for the months named in 1917 by 27.8 and 37.3 per cent, respectively, and in 1918 by 43.8 and 64.8 per cent, respectively. This shows that the standard of living had already declined "owing in part," as the *Maandschrift* expressed it, "to forced adaptation to conditions arising from the War."[7] It may be true that "the altered standard of living partially mitigated the financial consequences of this rise of prices"; but it is impossible to deny that escape from the situation was due to some extent to reduced purchases as an outward sign of diminished prosperity. So far as known, this restricted consumption was not counterbalanced by increased savings, although for some groups of labor, particularly the building trades, the great augmentation of wages opened the opportunity for it. The tendency towards frugality, which was not conspicuous in most cases, has declined still further on account of war conditions which weakened the feeling of responsibility; and this is equally true of other classes of society.

The great rise of wages did not begin until 1918 when the well-known competition between high prices and wages commenced, although this did not attain the proportions which it reached in other countries where inflation exercised a baleful influence. Nevertheless, the lack of stability has given rise to much unrest in the Netherlands as well as elsewhere. Here the lead was taken by the building trades; construction became so expensive, and State intervention kept rents so low, that private enterprise was entirely eliminated, and the

[7] *Maandschrift,* 1919, 4th quarter, p. 6.

shortage of houses assumed alarming proportions despite the work done by the public authorities and by societies subsidized with increasing lavishness. The following table giving figures from January of each year shows the course of wages per hour in the building trade at Amsterdam, as well as the rise in percentages:[8]

Wages per hour

	1919	*1920*	*1921*	*1922*	*1923*	*1924*
			(*in Netherlands cents*)			
Carpenters	63	88	120	128	116	98
Bricklayers	73	104	133	136	116	103
Hodmen	73	100	138	112	106	89
Carriers	55½	78	106	112	99	87
Concrete carriers	50½	91	114	119	106	90
Cement workers	57½	88	123	129	115	103
Metallic-lathers	51½	94	121	132	112	96

Percentage of wage increase since January, 1919

	1920	*1921*	*1922*	*1923*	*1924*
Carpenters	40	90	103	84	55
Bricklayers	42	82	86	59	41
Hodmen	37	89	53	45	22
Carriers	40	91	102	78	57
Concrete carriers	80	126	136	110	78
Cement workers	53	114	124	100	79
Metallic-lathers	82	135	156	117	86

The years 1921 and 1922 marked the culminating point. It should be noted that a considerable rise had occurred even during the War, so that the difference is still greater if compared with 1913, when the average hourly wages were as follows:

	(*in Netherlands cents*)	*Index-figure January, 1921* (*1913 = 100*)
Bricklayers	27½	400
Concrete and cement workers	28½	361
Carpenters	24	404
Painters	22½	380
Hodmen	20½	436
Carriers	18½	381

Although wages in other occupations do not show the same high figures as in the building trades, the general situation is identical throughout. As an example we may cite the metal-working industry[9]

[8] *Jaarcijfers*, 1923-1924, p. 93. [9] *Ibid.*, p. 96.

where, unlike the building trades, the collective labor-contract has found little penetration. In 1920, 62,718 metal-workers were governed by this type of contract; in 1923, 3,056; and in 1924 only 2,533 as contrasted with 110,620 in the building trades; and the number of workmen and their wages ranged as follows:

	Amsterdam	*Rotterdam*	*Haarlem*	*Hengelo*	*Flushing*
	Number of workmen				
Skilled					
1924, 1st half year	2,017	3,275	518	1,112	872
1923, 2nd half year	2,130	2,741	454	1,101	887
1921, 2nd half year	2,572	3,960	649	1,041	824
1917, 2nd half year	2,283	1,962	340	809	748
Experienced					
1924, 1st half year	1,116	1,898	280	663	368
1923, 2nd half year	1,128	1,537	276	630	377
1921, 2nd half year	1,239	2,111	367	639	400
1917, 2nd half year	963	988	134	398	285
Unskilled					
1924, 1st half year	616	1,914	146	300	302
1923, 2nd half year	640	1,663	103	296	325
1921, 2nd half year	646	2,473	175	350	423
1917, 2nd half year	550	988	113	258	276
	Average income (in Netherlands cents)				
Skilled					
1924, 1st half year	72	59	63	64	61
1923, 2nd half year	75	63	66	68	62
1921, 2nd half year	89	84	87	94	76
1917, 2nd half year	39	38	36	44	35
Experienced					
1924, 1st half year	63	54	57	57	52
1923, 2nd half year	66	58	60	59	54
1921, 2nd half year	80	78	76	75	66
1917, 2nd half year	36	35	33	37	34
Unskilled					
1924, 1st half year	55	46	48	51	43
1923, 2nd half year	58	46	52	52	45
1921, 2nd half year	68	68	66	66	56
1917, 2nd half year	31	32	30	31	28
Rise in percentages from the 2nd half year of 1917 to the 1st half year of 1924					
Skilled	85	55	75	45	74
Experienced	75	54	73	54	53
Unskilled	77	44	60	64	53

The following index-numbers, based on data of the Centrale Wertegevers Risico Bank,[10] afford a wider survey of the course of wages in various trades, the comparison of 1913 with 1923 being especially important as showing that high prices are still far from conquered.

Trades	*1915*	*1917*	*1919*	*1921*	*1923*
			(*1913 = 100*)		
Contractors	89	125	188	285	253
Bakers	109	123	174	244	258
Beetroot sugar factories	115	136	220	300	262
Regular lines of steamers	83	95	164	184	150
Inland navigation	100	115	164	252	202
Ready-made clothing	101	120	200	241	235
Electro-technic trades	113	120	151	245	221
Woodworkers	106	132	194	272	238
Sand-lime factories	99	128	191	252	206
Brick factories	102	130	190	274	208
Leather industry	109	145	213	295	248
Rag industry	105	137	208	258	242
Plumbers	104	127	187	275	236
Engineering works	92	106	158	208	192
Dairy factories	83	114	171	260	242
Joiners	81	103	140	231	189
Butchers	101	121	171	238	232
Towing services	84	102	206	236	193
Blacksmiths	86	108	156	228	201
Livery stables	105	127	191	305	315
Stonemasons	101	123	190	288	248
Plasterers	87	118	183	282	228
Tobacco workers	102	124	192	245	226
Textile industry	99	121	196	266	231
Laundries	107	123	174	246	236
Waterboards	118	132	204	297	254

Comparison of the index-numbers of wages with those of retail sale prices for the principal foodstuffs shows a considerable increase in the purchasing power of the former. As contrasted with 1913, the prosperity of large groups of the labor community has risen notably, and this becomes still more evident when the index-numbers of the cost of living for laborers' families in Amsterdam are con-

[10] Cf. *Praeaddviesen der Vereeniging voor de Staathuishoudkunde en de Statistiek,* 1925, p. 182.

trasted with those of the wages cited above. Since, however, the wealth of the people as a whole was reduced more and more, such progress could take place only at the expense of other groups of the population. The latter include the varied and complex mass of officials, teachers, *rentiers*, etc., who live on fixed incomes and thus have only a very inadequate opportunity, if any, to enlarge their incomes in times of high prices. Moreover, a large section of the middle classes and many large entrepreneurs have been obliged to cope with hard times. When the depression set in, wages could be maintained only at the cost of an abnormal degree of unemployment which was fostered by excessive doles, especially at first, that prevented wages from decreasing. Hence the general standard was artificially kept much too high for the sake of a "living wage"; and various labor exchanges—the Eindhoven Labor Exchange attained a certain celebrity in this respect—agreed to act as intermediaries for restricting unemployment only if the work offered was in accordance with certain standards of wages which they established. Broadly speaking, the practice of the last few years has been characterized by a complete lack of insight. Although work was offered, economic laws were ignored, and unemployment was permitted to continue and spread rather than abandon standards of wages which, however justifiable during a period of prosperity, became absurd when depression and restricted purchasing capacity set in. Hence the measures meant for improvement led to the reverse and accelerated the decline of a prosperity which had already fallen low. Since consumption showed an increase rather than a decrease, in consequence of government and municipal expenditure, this resulted in a renewed increase in prices which soon caused fresh action regarding stipends. High prices and demands for wages, first directed primarily towards a rise and then, during the period of depression, against a decline, were a source of social unrest, as is clearly proved by the statistics of strikes and lockouts. We append a few data[11] showing the extent of this evil, especially in connection with the number of working days thus lost to the community.

[11] *Maandschrift*, 1925, pp. 37, 209.

Year	Number of strikes and lockouts	Days lost (in thousands) consequent upon disputes begun each year	Days lost (in thousands) within the limits of a calendar year
Annual average, 1901 to 1913	184	411.	.....
Annual average, 1914 to 1918	317	416.	420.4
1919	649	1,094.7	1,056.8
1920	481	2,333.9	2,354.9
1921	299	1,383.7	1,281.7
1922	325	1,108.3	1,223.9
1923	289	3,986.5	1,216.4
1923 (without the textile conflict)	287	851.7	836.

The following table gives the number of strikers and locked-out workmen, as well as of the establishments affected:

Year	Number of strikers and locked-out workmen	Number of establishments affected
Annual average, 1901 to 1913	16,000	677
Annual average, 1914 to 1918	24,000	1,379
1919	61,700	4,935
1920	66,500	3,014
1921	47,700	2,430
1922	44,000	3,371
1923	56,000	1,455
1924	25,800	1,108

Generally speaking, the manufacturing establishments were most gravely injured, and here the number of working days lost amounted in 1923 to 3,831,790 out of a total of 3,986,500, of which no less than 3,317,480 were due to the great strike and lockout in the textile industry. All other branches, such as transportation with 120,700 days, agriculture with 28,470, and commerce with 4,470, are favorable in comparison. From 1901 onward, about half the strikes and lockouts occurred in the large towns, *i.e.*, those with more than 50,000 inhabitants. Amsterdam has always showed the highest figures both absolutely and relatively: 111 in 1919, 96 in 1920, 75 in 1921, 93 in 1922, 59 in 1923, and 50 in 1924.

The results of these conflicts were not in keeping with the sacri-

fices they demanded from the laboring classes or with the damage suffered by production, as is shown by the following figures giving the percentages of decisions for the total number of strikers and locked-out workmen:

Year	*Favorable*	*Adverse*	*Compromised*
1919	10.04	19.55	67.27
1920	3.72	44.49	50.50
1921	6.76	9.43	83.27
1922	20.19	17.73	60.84
1923	4.96	28.64	65.52

The sudden change from boom to depression manifests itself emphatically in these extreme percentages which are at the same time coterminous with the periods: in 1920, 88.1 per cent of the strikes arose from demands for higher pay, and in 1921, 70.97 per cent were in opposition to the lowering of wages.

CHAPTER III

PUBLIC FINANCE

THE situation of armed neutrality and the economic repercussion of the World War on the Netherlands caused abnormal and constantly increasing demands to be made upon the Treasury. To meet this situation a new service was created which obtained its funds from special taxation and from loans contracted for the express purpose of meeting abnormal crisis expenditure. For these loans a specific fund was established which was fed by supertaxes on some items of direct taxation and by certain crisis levies, the revenue being designed to ensure regular payment of interest and amortization.

The amounts involved in financing the crisis service were very considerable, as is shown by the fact that its expenditure up to and including 1920 was no less than 2,106.3 million guilders,[1] 79.3 million guilders in 1921, 262.4 million guilders in 1922, 39.2 million guilders in 1923, and 5.4 million guilders in 1924 when the service ended, or 386.3 million guilders in all, thus making a total of 2,492.6 million guilders since the outbreak of the War. This outlay was partly met by the following crisis loans:

	(in millions of guilders)
Loan of 1915	275.
Loan of 1916, first	125.
Loan of 1916, second	121.2
Loan of 1917	252.5
Loan of 1918	346.5
Loan of 1919	230.6
Total	1,350.8

The consolidated Government Debt in 1915 amounted to 1,140.3 million guilders, and in 1924 to 2,788.4 million guilders. A comparison of the sums appropriated in 1914 and in 1924 for interest and sinking fund, including the revenue of the Loan Fund covered by taxation, shows that the burden had increased as follows:[2]

[1] *Cf.* A. van Gijn, *De Staatsfinancien na den Oorlog* in *De Economist*, 1922, pp. 367-387, and *De Staatsfinancien, ibid.*, 1925, pp. 75-97.

[2] Cf. *Waarschuwende Cijfers uit de Staatsfinancien*, published by the Netherlands Society for Industry and Trade, p. 18.

	1914	*1924*	*Percentage of 1914*
		(*in guilders*)	
Appropriated for interest and sinking fund	38,593,112.80	180,201,629.55	...
Per 100 inhabitants	621.20	2,502.80	403

Crisis expenditure was met by the proceeds of loans and also by fresh taxation created in view of abnormal requirements such as an excess war profits tax and the defense tax schedules Ia, Ib, and II, these last three being based upon property tax and upon income tax. The defense tax was reduced on May 1, 1920, and was transferred to the Loan Fund. This group of taxes made a direct contribution of 988,958,000 guilders towards covering crisis expenditure, the excess war profits tax being calculated up to April 1, 1922, and the defense tax up to May 1, 1920. The excess war profits tax, which was levied as from August 1, 1914, to December 31, 1918, alone gave a net yield of 792,296,000 guilders up to September 30, 1924, this being calculated on the surplus profits made during those years up to 10 per cent of such profits below 2,500 guilders after deducting 1,000 guilders, and up to 30 per cent of such gains over 2,500 guilders after deducting 2,000 guilders.[3]

Quite apart from crisis expenditure, the ordinary disbursements of the State were profoundly affected by the abnormal conditions prevailing during and immediately after the War. The budget is divided into ordinary and extraordinary expenditure and revenue, the line of demarcation between the two being drawn by a regular annual recurrence of the items in question as contrasted with irregular requirements. The extent of financial uncertainty in this regard is frequently evident from the wide divergence between estimates, especially of revenue (although it was often equally difficult to estimate expenditure), and actual amounts after the close of the financial year. We append in the first place a few figures showing the expansion of the budget:

[3] *Jaarcijfers,* 1923-1924, p. 312; *Statistiek van Nederland,* No. 370; *Statistiek der Rijksinkomsten,* 1921, Tables XVII and XVIII, p. 27. By July 31, 1922, nearly the whole amount had been collected, *i.e.,* almost 774 million guilders.

Year	*Ordinary expenditure*	*Extraordinary expenditure*
	(*in guilders*)	
1914	238,027,684 (estimated)	20,953,600 (estimated)
1921	621,188,734	289,676,072
1924	608,960,242	96,652,717
1925	598,688,206 (estimated)	86,187,715 (estimated)
1926	583,025,924 (estimated)	61,385,340 (estimated)

The estimates for the entire budget of 1924 exceeded those for 1914 by 184 per cent. When we take into account the falling value of the guilder in keeping with the index-number 173 (1914 = 100), and when we allow for the increase in the budgetary requirements necessitated by an increase of population by about 15 per cent during this period, the normal rise should have been approximately 88 per cent, so that the difference of 96 per cent was due to conditions and their aftermath.[4]

To illustrate this uncertainty in public finance we append the statistics for revenue and expenditure, giving both the estimates and the actual amounts as well as the balances, after 1917. These figures also show how a chronic deficit in ordinary expenditure threatened to plunge Netherlands finance into all the calamities of inflated currency, a peril which was averted only by the concentration of every energy upon restoration of financial equipoise.[5]

ORDINARY BUDGET OF STATE REVENUE AND EXPENDITURE

	Revenue		*Expenditure*		*Balance*	
Year	*Estimates*	*Actual amounts*	*Estimates*	*Actual amounts*	*Estimates*	*Actual amounts*
			(*in thousands of guilders*)			
1917	258,000	304,305	265,831	267,260	—7,831	+37,045
1918	274,834	329,058	284,746	333,369	—9,912	—4,311
1919	298,218	466,359	340,508	444,073	—42,290	+22,286
1920	401,000	613,695	450,713	613,031	—49,713	+664
1921	544,182	608,838	634,438	621,187	—90,256	—12,349
1922	591,445	597,577	643,453	630,380	—52,008	—32,803
1923	567,696	566,711	615,617	615,829	—47,921	—49,118
1924	558,626	580,307	620,718	608,960	—62,092	—28,653
1925	591,854	.....	598,688	.....	—6,834	.....
1926	592,200	.....	583,025	.....	+9,175	.....

[4] See *Waarschuwende Cijfers,* Appendices Ia and IVb, although these fail to take account of the increase in population.

[5] *Cf.* Van Gijn, *De Staatsfinancien,* in *De Economist,* 1925, p. 75.

From 1905 to 1914, inclusive, the ordinary budget showed an average surplus of 6,194,777 guilders, in 1915 it had a deficit of 15,548,220 guilders, and in 1916 a surplus of 20,276,373 guilders. As may be seen from these figures, a deficit in the ordinary budget has always been taken for granted except in 1926. Three times—in 1917, 1919, and 1920—the results proved this pessimism unfounded, although it should be noted that after January 1, 1918, various taxes were increased, and fresh ones introduced, to a total amount of more than 100 million guilders. The deficits of 1922 and 1923 were manipulated by transferring expenditure to extraordinary or crisis budgets, especially in the case of the considerable railway deficit which amounted to about 30 million guilders for 1921 and 1922 and which was unjustly charged to crisis expenditure. For 1924, this system was abolished, and the deficit was carried on the ordinary budget.

The greatest difference between estimates and results was shown by 1920, the last year of apparent prosperity after the War. The estimated deficit of nearly 50 million guilders was actually changed into a small surplus of rather more than 650,000 guilders. This was due to the fact that, although the expenditure exceeded the estimates by 163 million guilders, the revenue surpassed the estimates by more than 212.5 million guilders. The cause lay chiefly in the great uncertainty of the period in question and in the influx of apparent profits which subsequently proved devoid of economic foundations. When the depression began, towards the end of 1920, those sources of revenue which were not directly dependent upon traffic continued to give large returns for a considerable time, especially the income tax. For this the financial year is reckoned from May to May, while the tax itself is levied on the income of the preceding calendar year. Accordingly, part of the income tax for 1920 had still to be paid within the first half of 1922, during which the depression gradually reached its lowest point. In consequence of this, and because of heavy arrears in the assessments, the burden of taxation was much increased during a time of waning financial strength which brought great difficulties to countless numbers who were still obliged to pay taxes on profits which had long belonged to the past and had given place to losses without any hope of a better future.

In 1921 there was, for the first time, some discussion of retrench-

ment in the Government Budget when a new Minister of Finance, Jonkheer de Geer, was appointed for this purpose. It was not, however, until the autumn of 1922 that the estimates for ordinary expenditure were reduced by over 23 million guilders, but the estimated deficit finally proved to be no less than 47 million guilders, which came very close to the actual figure of 49,177,000 guilders. When Jonkheer de Geer resigned because of the rejection of the Navy Bill, his duties were assumed by M. Colijn, who succeeded by various means in balancing the budget for 1925, thus averting the perils of inflation. His success was demonstrated by the fact that on April 29, 1925, the guilder was again placed on a gold basis by repealing the embargo on exports of gold. Since that date the rates of exchange on countries where the monetary standard has likewise been restored have resumed their normal course. The budget for 1924 still showed an estimated deficit of over 62 million guilders, but the actual shortage was only 28,652,000 guilders.

Additional taxation, although hardly defensible during a period of economic depression, here played a considerable part, notably the tobacco tax (which found general approval), the increased levies on beer and tea, the bicycle tax, and the raising of important duties as a whole from 5 to 8 per cent *ad valorem*. This last tax was much criticized, especially by free-traders, a fact which is not surprising when one remembers that since 1862 the Netherlands' commercial policy had always favored free trade by lowering tariffs and placing articles on the free list. Many quarters held the view that general economic interests were sacrificed to direct fiscal needs. A bill has been introduced[5a] for taxing expenditure on luxuries, and large amounts have been relegated to the future, especially disability and old age insurance and appropriations for pensions. The real amount economized since January 1, 1924, including the Budget for 1925, was 18.5 million guilders, to which must be added 23 million guilders saved by reducing the salaries of government officials. The fresh sources of revenue were expected to yield 34 million guilders, the excess over the estimates amounted to 19 million guilders, the deficits on railways and the postal service were lowered by 20 million guilders, and the postponement of annuities due to the disability fund caused a further saving of 18.6 million guilders. Thus 133 million guilders had been found, and the budget was balanced "by hook or by crook," as Professor Van Gijn expressed it. If we con-

[5a] Since withdrawn.

sider only the main purpose, *i.e.*, the prevention of inflated money with its inevitable increase of the floating debt, much of which would have been taken directly or indirectly by the bank of issue, we may say that success has been achieved, and that calamity has thus been averted. On the other hand, many of the expedients adopted were scarcely satisfactory and were in absolute contradiction not only to the reduced financial capacity of the people in consequence of the depression, but also to conditions requisite for beginning economic reconstruction.

In particular, several new taxes were created, although it had been recognized, when the Budget was introduced in September, 1924, that the burden of taxation seriously impeded the gradual development of national prosperity, and that the total of government expenditure was far too high in relation to the financial strength of the people. At the same time government statistics showed that the total taxes levied *per capita* in the Netherlands by the State, the provinces, and the communes amounted to 33.24 guilders in 1910 and to 139.20 guilders in 1921, so that they had increased more than fourfold. The reduced taxation which M. Colijn sought was in reality a euphemism for its transfer, since the intention was to apply the yield of fresh indirect levies (including the increase of existing rates) to the reduction of direct assessments, including the greatly augmented death duties. As a matter of fact, a radical alteration had been made in the proportion between direct and indirect taxation.[6] The direct taxes, that is the household tax, income tax, property and dividend tax, and death duties (succession tax), yielded in 1914 a total of 58.5 million guilders as against 215 million in 1921, an increase therefore of 267½ per cent. The indirect taxes (excise, import duties, stamp dues, and registration fees), which yielded 90 million guilders in 1914, brought 204.5 million in 1921 (including the statistics duty introduced later), or an increase of 127 per cent. Whereas the proportion of the yield of direct to indirect taxation was as 1.3 to 2 in 1914, it was as 2.1 to 2 in 1922. The burden of direct taxation increased by 156.5 million guilders, and that of indirect taxation by 115 million guilders. These figures do not include the super-levies on various direct taxes on behalf of the Loan Fund, and they also ignore the direct munici-

[6] See Treub's *Preliminary Report to the Society for Economics and Statistics*, 1924, p. 17.

pal levies which vary greatly, but which have risen in some communes much more than government income tax assessments. The following table shows the increase of the government income tax together with the supertaxes (except those of the communes) and the Defense Tax II for the fiscal years 1915-1916 and 1923-1924 for childless married persons whose incomes were 5,000, 10,000, 20,000, 50,000, 100,000, and 200,000 guilders.[7]

In 1915-1916 the entire amount of the government income tax[8] was 25,004,566.98 guilders, divided into 679,110 assessments on a total income (without deduction for children) of 1,334,494,191 guilders; and in 1921-1922 it was 130,093,237.42 guilders, divided into 1,638,456 assessments on a total income of 4,291,743,912 guilders. The average assessments, therefore, had risen from 36.80 guilders to nearly 80 guilders. Still more important than this absolute increase was the trend of the tax burden towards the larger and the largest incomes. Thus in 1915-1916 there were 1,206 assessments on incomes of 50,000 guilders and over, that is, 0.117 per cent of the entire number. This aggregate income amounted to 127,337,425 guilders, or more than 9 per cent of the total, and it contributed 5,920,960 guilders, or 23.68 per cent of the entire yield of more than 25 million guilders. During the fiscal year 1921-1922, 3,730 persons were assessed on incomes of 50,000 guilders and over out of a total of 1,638,456, rather more than 0.22 per cent; their aggregate income was 459,550,658 guilders out of a total of 4,291,743,912 guilders, or somewhat over 10.7 per cent of the entire revenue; and they contributed more than 53.7 million guilders or 41.3 per cent, to the aggregate yield of over 130 million guilders.[9]

A comparison of the percentages of the whole revenue with the yield of this tax very clearly shows the enormous change wrought by progressive intensification. Whereas in 1915-1916 the highest incomes, representing 9 per cent of the whole, gave 23.68 per cent of the total yield, in 1923-1924 their share was 41.3 per cent, although they then numbered only 10.7 per cent of the entire assessments. Naturally complaints began to be heard that large incomes

[7] Taken from *Rapport van den Nijverheidsraad inzake den Invloed van de Belastingwetgeving op de Industrie,* July, 1924, Table IV, p. 15.

[8] See *Bijdragen tot de Statistiek van Nederland,* New Series, No. 243, Table XVIII, p. 36.

[9] *Statistisch Zakboek,* 1899-1924, p. 43.

Incomes (in guilders) and financial years	*Principal amount of income tax*		*Supertax loan fund: 33 in 1915-16 25 in 1923-24*	*Defense tax II*		*Total percentage on behalf of Government*		*Maximum percentage of supertax for the provinces:**
	Amount (in guilders)	*Percentage of income*	*Percentage of income*	*Amount (in guilders)*	*Percentage of income*	*Absolute totals*	*Increase as compared with 1915-16*	*Percentage of income*
5,000								
1915-16	115	2.30	0.76	...	...	3.06	...	0.37
1923-24	143	2.86	0.71	31	0.62	4.19	36.93	0.57
10,000								
1915-16	265	2.65	0.87	...	...	3.52	...	0.42
1923-24	358	3.58	0.90	88.50	0.88	5.36	52.27	0.72
20,000								
1915-16	665	3.33	1.10	...	...	4.43	...	0.53
1923-24	908	4.54	1.14	251	1.25	6.93	56.43	0.91
50,000								
1915-16	2,165	4.33	1.43	...	...	5.76	...	0.69
1923-24	3,758	7.52	1.88	1,113.50	2.22	11.62	101.74	1.50
100,000								
1915-16	4,665	4.66	1.54	...	...	6.20	...	0.75
1923-24	10,958	10.96	2.74	3,788	3.79	17.49	182.10	2.19
200,000								
1915-16	9,665	4.83	1.59	...	...	...	...	0.77
1923-24	25,958	12.98	3.25	9,788.50	4.89	21.12	228.97	2.60

* Sixteen in 1915-1916, twenty in 1923-1924.

were too heavily taxed, and that the increasing demands of the Treasury were bound to hamper the formation of capital.

Municipal taxes in 1920 were 354 per cent higher than in 1914, or 227 million guilders as against about 50 million guilders; and municipal income taxes alone, which yielded 32.5 million guilders in 1914, amounted to 185 million guilders in 1920, or 470 per cent more than in 1914. When we remember that 200 per cent would have been normal in view of the decline in the purchasing power of the guilder and the increase of the population, these figures clearly show how the actual expansion of expenditure increased the burden of taxation. The following table[10] records the total taxation levied by some of the principal communes for 1914 and 1925, and shows that, although in many instances even the communes have made some reductions in assessments, the burden, as compared with 1914, is still abnormally heavy and is complicated by a grave lack of prosperity.

	Estimates		*Per capita*		
				1925	
Communes	*1914* (*in thousands of guilders*)	*1925*	*1914* (*in guilders*)	(*in guilders*)	*Percentage of 1914*
Amsterdam	10,709	38,908	17.99	54.63	303
Rotterdam	4,308	28,653	9.31	52.70	566
The Hague	5,546	21,470	18.37	54.85	297
Utrecht	1,766	6,101	14.19	40.72	287
Groningen	901	3,343	11.39	34.58	303
Nijmegen	442	2,201	7.47	30.05	402
Tilburg	322	1,888	5.89	27.10	460
Maastricht	186	1,263	4.70	22.04	468
Delft	291	1,479	8.53	30.35	354
Leeuwarden	425	1,551	11.07	33.69	304
Schiedam	226	1,297	6.67	29.71	445
Heerlen	86	1,256	5.27	32.77	621
Deventer	263	1,432	9.01	42.49	471
Helder	172	947	6.15	30.76	500
Gouda	166	798	6.54	29.30	448
Vlaardingen	123	1,080	5.34	40.01	749
Lonneker	81	406	3.99	18.18	455
Venlo	98	455	5.11	20.76	406

[10] Taken from *Waarschuwende Cijfers uit de Gemeente-Financien,* published by the Netherlands Society for Industry and Commerce, Annex II, p. 31.

The taxes imposed by the Government and the communes are the most important in the Netherlands; but the assessments levied by the eleven provinces give precisely the same picture, and, as in the case of the communes, they reveal an enormous increase in the burden of debts, as shown by the following statistics:[11]

	Total		*Per 1,000 inhabitants*		
				1924	
Province	*1914* (*in thousands of guilders*)	*1924*	*1914* (*in guilders*)	(*in guilders*)	*Percentage of 1914*
South Holland	972	3,149	647.10	1,788.83	276
North Holland	925	2,981	786.26	2,190.75	277
North Brabant	634	1,636	964.00	2,100.39	218
Gelderland	366	791	546.06	1,031.96	189
Limburg	209*	644	564.55	1,370.44	242
Overijssel	354	1,255	877.40	2,725.31	310
Friesland	544	1,646	1,477.89	4,173.34	282
Groningen	701	1,520	2,060.47	4,014.55	195
Utrecht	187	544	619.33	1,480.14	239
Zeeland	330	1,068	1,389.44	4,286.47	308
Drenthe	137	466	741.31	2,111.47	284

* Figure for 1915.

During the past decade some of the provinces also have added greatly to their public debt. Here the situation is least unhappy in the most densely populated province, South Holland, whereas North Holland is in a relatively unfortunate position since it has become involved in great difficulties through establishing various public enterprises. Conditions may be termed favorable in provinces where the debt has about doubled since 1914. Besides North Holland the provinces which have suffered most in this regard are North Brabant, Utrecht, Limburg, and Friesland. It is true that the amount and the shifting of the debts do not constitute a perfect criterion for judging economic development; but even under the most favorable conditions, *i.e.*, when the entire increment is invested in various works of public utility and indirect productivity, such as roads and canals, augmentations of this type in times of depression, when preparation should be made for recovery, mean an unjustifiable burden. When private initiative is making retrenchments, expansion is inexcusable, particularly if due to official action, for such a course

[11] Taken from the same Society's *Waarschuwende Cijfers uit de provinciale Financien,* pp. 22 *et seq.*

recklessly increases the weight of taxation at the very time when its reduction is more urgently needed than ever. In this connection a notorious instance is afforded by North Holland, which at a given moment was obliged to face a loss of more than 6.5 million guilders on the provincial electric works.

The following table shows the growth of the provincial debts:

	Total		*Per 1,000 inhabitants*		
				1924	
Province	*1914*	*1924*	*1914*		*Percentage of 1914*
	(in thousands of guilders)		*(in guilders)*	*(in guilders)*	
South Holland	6,503	8,901	4,329.27	5,056.33	116
North Holland	4,605	63,085	3,914.32	46,361.45	1,184
North Brabant	434	22,397	659.90	28,754.54	4,357
Gelderland	1,582	16,049	2,360.28	20,937.97	887
Limburg	430*	6,585	1,161.51	14,013.02	1,206
Overijssel	2,922	7,209	7,242.33	15,654.92	216
Friesland	1,743	17,843	4,735.24	45,239.95	955
Groningen	5,242	11,074	15,408.00	29,248.17	189
Utrecht	627	9,931	2,076.59	27,020.77	1,301
Zeeland	958	2,821	4,033.62	11,322.22	280
Drenthe	1,640	5,379	8,874.07	24,372.56	274

* Figure for 1915.

Under these circumstances it was obvious that interest and sinking funds must weigh far more heavily on the budget than ten years previously. In this regard the province of Utrecht shows the sorriest picture (112.60 guilders per 1,000 inhabitants in 1914 as against 2,587.53 guilders in 1924, or an increase of 2,297 per cent), followed by North Brabant, Limburg, and North Holland, with increases of 1,811, 1,185, and 1,088 per cent, respectively. The provinces of Groningen and South Holland, with increases of only 177 and 139 per cent respectively, show up best.

The inequality in the burden of direct taxation is caused mainly by the divergence in direct assessments levied by the municipalities; the provinces here playing a subordinate part. The following statistics[12] show this difference in regard to incomes of 1,000, 2,000, 3,000, 4,000, and 5,000 guilders for married couples with two children, the comparison being between communes with the highest and the lowest taxation:

[12] See *Belastingsdruk*, 1924-1925, published by the Central Statistical Bureau, p. 6.

Net income (in guilders) and fiscal years	*Lowest burden of taxation*				*Highest burden of taxation*			
	Communes	*Government and provincial*	*Communal (in guilders)*	*Total*	*Communes*	*Government and provincial*	*Communal (in guilders)*	*Total*
1,000								
1920-21	Rotterdam Vrijenban	1.27	....	1.27	Hoek	1.45	63.27½	64.72½
1924-25	Rotterdam The Hague Delft Schiedam Albasserdam	1.27	....	1.27	Vollenhove (town)	1.38	40.50	41.88
2,000								
1920-21	Heumen	31.30	....	31.30	Peize	34.45	162.97	197.42
1924-25	Kromvoort	31.51	....	31.51	Poederooien	30.25	155.62½	185.87½
3,000								
1922-23	Engelen Kromvoort	83.40	....	83.40	Oude-Pekela	88.80	294.03	382.83
1924-25	Kromvoort	81.24	....	81.24	Hindeloopen	88.26	315.12	403.38
4,000								
1922-23	Engelen Kromvoort	138.15	....	138.15	Oude-Pekela	147.05	471.55	618.60
1924-25	Kromvoort	134.59	....	134.59	Hindeloopen	146.16	559.52	705.68
5,000								
1920-21	Heumen	192.10	....	192.10	Peize	211.15	718.16	929.31
1924-25	Kromvoort	193.37	....	193.37	Hindeloopen	209.88	811.72	1,021.60

These figures do not include supertaxes levied by the communes on the government personal and property assessments. The maximum property supertax, which, as an amplification of the strongly progressive General Income Tax, shows only a very small advance, is 100 per cent, and a great number of communes avail themselves of this opportunity to strengthen their treasures. Supertaxes on personal tax are levied by almost all communes, but the percentage ranges very considerably from 10 to 150 per cent. In 1924-1925, Groningen thus levied 80 per cent; Utrecht, 100 per cent; Rotterdam, 102 per cent; The Hague, 140 per cent; and Amsterdam, 141 per cent; while some small communes, such as Vlaardingen, went as high as 150 per cent. The small town of Hindeloopen, mentioned in the table, levied 30 per cent supertax on personal and 100 per cent on property tax; Peize, 50 per cent and 50 per cent, respectively; Oude-Pekela, 50 per cent and 100 per cent. The weight of direct taxation was, therefore, considerably greater than might be supposed from the table.

The abnormal burden created for large incomes by income tax, property tax, and defense tax, together with government and provincial supertax, may be seen from the following tables for 1920-1921, which also show the difference between Amsterdam and Rotterdam, although the load in the latter city was already very heavy.

Incomes (in guilders) from other than property	*Amsterdam*		*Rotterdam*	
	Amount (in guilders)	*Percentage*	*Amount (in guilders)*	*Percentage*
1,000	27.85	2.78	24.35	2.43
2,000	171.21	8.56	130.41	6.52
5,000	667.91	13.35	559.11	11.18
10,000	1,696.96	16.96	1,464.16	14.64
50,000	14,555.96	29.11	11,607.16	23.21
100,000	36,094.96	36.09	29,426.16	29.43
1,000,000	437,044.96	43.07	362,876.16	36.29
1,000	44.55	4.45	40.05	4.
2,000	238.01	11.9	193.21	9.66
5,000	849.91	16.99	731.11	14.62
10,000	2,125.96	21.25	1,873.16	18.73
50,000	18,260.96	36.52	15,212.16	30.42
100,000	45,594.96	45.59	38,726.16	38.73
1,000,000	590,444.96	59.04	514,276.16	51.43

The first table gives earned incomes mainly, the second, those derived from property.

Since that time, of course there have been some changes with regard to municipal taxation, not so much because of any perception of the error of high assessments, as because the depression compelled such alterations. The amount of taxation for Amsterdam sank from 54,566,133.95 guilders in 1920-1921 to 29,644,112.59 in 1923-1924, the coefficient during those years being gradually lowered from 1 to 0.675.[13] The greatest shrinkage of revenue, *i.e.*, 7.7 per cent in 1922-1923, coincided with the largest decrease of the tariff, *i.e.*, 16⅔ per cent.

A progressive tax which levies between 50 and 60 per cent on the larger and largest incomes, and to which at least 10 per cent—and in most cases considerably more—must be added for municipal supertax, household tax, and indirect taxation, has a subversive effect upon the community since it makes the creation of capital well-nigh impossible. Such creation is, as a matter of fact, derived mainly from the larger and the largest incomes, whereas the money transferred to the Treasury and considered as ordinary revenue is devoted to regular, annually recurring expenditure which almost exclusively devours capital rather than conserves it. It is, therefore, certainly incorrect to say that the concentration of capital by public authorities replaces private creation. When a period of depression synchronizes with high taxation, the result is doubly destructive for the formation of capital because in that case the largest incomes are most gravely affected quite independently of being bled by the Treasury. In such case heavy progressive taxation merely accentuates the downward leveling of incomes through economic causes. This may be in accord with democratic ideals and desires, but it fails to solve the problem of the source of capital for the vastly augmented demands created by a greatly increased population.[14]

[13] See *Statistische Mededeelingen,* published by the Statistical Bureau of the Municipality of Amsterdam, No. 74 (*De gemeentelijke Inkomstenbelasting in jaren Belasting 1921-22, 1922-23 en 1923-24, Voorloopige Cijfers*), p. 1.

[14] Prof. Dr. C. A. Verrijn Stuart rightly remarks: "It is not every man who is ready to impose upon himself rigid economy in expenditure in order to enable others to share in the fruit of his savings through the Treasury" (*see* his article *De Daling van het Geboortecijfer in Nederland,* in *Economisch-Statistische Berichten,* January 22, 1919).

The leveling tendency, furthermore, is by no means the same in a time of widespread depression as in a period of general progress. This finds illustration in the following figures for percentages in Amsterdam:[15]

Classes of incomes	*Fiscal year*						
(in guilders)	*1917-18*	*1918-19*	*1919-20*	*1920-21*	*1921-22*	*1922-23*	*1923-24*
800-1,000	60.88	53.34	32.77	14.81	12.93	13.66	15.25
1,100-2,100	25.60	32.00	47.02	59.72	54.71	50.20	49.67
2,200-5,000	7.87	8.74	13.65	19.13	25.86	29.95	28.95
5,100-10,000	2.57	2.80	3.41	3.51	3.85	4.02	4.08
10,100-21,000	1.45	1.48	1.67	1.48	1.51	1.36	1.33
21,100-50,000	0.98	1.02	0.95	0.82	0.73	0.55	0.53
50,100-100,000	0.37	0.37	0.33	0.31	0.25	0.17	0.13
100,100-250,000	0.20	0.19	0.16	0.16	0.12	0.07	0.05
250,100 and up	0.08	0.06	0.04	0.06	0.04	0.02	0.01
Total	100.	100.	100.	100.	100.	100.	100.
	Amount of income						
800-1,000	18.07	15.95	10.07	4.24	3.90	4.45	5.13
1,100-2,100	13.59	16.43	23.38	29.33	29.78	30.10	30.76
2,200-5,000	9.40	10.20	14.95	19.00	25.64	31.66	32.31
5,100-10,000	6.77	7.32	8.58	7.92	8.92	10.02	10.67
10,100-21,000	7.51	7.66	8.50	6.88	7.22	6.79	7.07
21,100-50,000	11.34	11.59	10.68	8.45	7.72	6.32	6.22
50,100-100,000	9.41	9.54	7.96	6.85	5.85	4.12	3.23
100,100-250,000	10.95	10.63	9.05	7.88	5.59	3.62	2.56
250,100 and up	12.96	10.68	6.83	9.45	5.38	2.92	2.05
Total	100.	100.	100.	100.	100.	100.	100.

These statistics immediately show, both in percentage of assessment and in amount of income for each category, that, on the whole, the two extremes, the lowest group (800 to 1,000 guilders) and the higher and highest groups (over 10,000 guilders) diminished in number during the years under consideration. On the other hand, a depression which did not reveal its effect until a year later caused the two lowest groups (up to 2,100 guilders) to fall in 1922-1923 and 1923-1924, in percentage of assessments, although even here the proportion of incomes still showed a slight increase. The leveling process has had a double effect: a gain in the lowest incomes,

[15] *Statistische Mededeelingen van het Bureau van Statistiek van Amsterdam,* No. 74, *Voorloopige Cijfers,* p. 3.

which in great part have gradually taken second and third place; and a decline in incomes of over 10,000 guilders, which have largely sunk into the lower groups. The downward leveling has, however, been predominant. If we except the largest incomes of more than 250,000 guilders, which showed an advance during the boom year 1920-1921 with a parallel rise in the percentage of assessments, all groups over 10,000 guilders have decreased both in assessments and in amounts of income. The decline has been great not only relatively but also absolutely, through diminution of incomes subject to taxation; and this has increased the middle groups.

The entire aspect of the distribution has now changed radically. Thus, incomes of from 100,000 to 250,000 guilders have fallen relatively to about one-fourth of their proportion in 1917-1918, and those of over 250,000 guilders to less than one-sixth; while a similar phenomenon may be observed in the case of the other higher groups, although to a smaller extent. The outlook is dark for those who understand that the first requisite for economic recovery is an increase in the supply of capital. Generally speaking, the fact that moderate incomes have shown a relative increase in number may be a cause for rejoicing; but such improvement is only superficial when it takes place primarily at the expense of greater fortunes. During a period of prosperity a lower percentage may coincide with a larger absolute amount, and on this score the formation of capital would not necessarily be harmed. Since 1921-1922, however, the total of the incomes has been falling, as is shown by the following figures, again for Amsterdam:

Year	*Number of assessments*	*Total of incomes (in guilders)*	*Amount of municipal income tax (in guilders)*
1917-18	151,015	416,019,000	16,699,816
1918-19	164,112	458,501,500	18,659,692
1919-20	162,096	464,923,300	30,444,236
1920-21	203,012	638,644,300	54,566,133
1921-22	219,134	656,278,400	48,989,640
1922-23	223,683	618,292,800	35,215,930
1923-24	229,543	610,005,200	29,644,112

In 1917-1918 Amsterdam incomes exceeding 10,000 guilders represented 52.17 per cent of the total, but in 1923-1924 only 21.23 per cent, the absolute figures being 217,037,112 guilders in 1917-

1918 and 128,894,098 guilders in 1923-1924, or a decrease of 88,143,014 guilders. Since the aggregate incomes in 1923-1924 amounted to nearly 194 million guilders more than in 1917-1918, the total of those exceeding 10,000 guilders had fallen by over 88 million guilders. The far more crushing weight of the depression on the larger incomes can hardly be illustrated better than by such figures. This downward leveling, in fact, has been greatly accelerated by fiscal legislation. It is true that, as we have seen, taxation in Amsterdam has since been lowered, but this reduction was not made by lessening the progressive assessments; and although it is the Government's intention to decrease some of the direct taxes, and perhaps the very heavy death duties as well, thus far these plans have not matured. State taxes, both old ones heavily increased and many new ones levied during the War, still weigh business activity down to such an extent that recovery is seriously impeded. In Parliament the very powerful democratic element is especially opposed to lowering direct taxation, since there is a decided tendency to favor diminution of various excise duties rather than to protect higher incomes, the motive being to placate the lower classes, who, as electors, deliver the largest number of votes.

Inheritance duty is a single property tax of peculiar inequality because it is contingent upon death. Whereas this must be paid on some fortunes only twice or three times in a century, in other cases it may fall due ten times or more within the same period of time. In its yield this tax is the most incalculable one of all, and it ranks among the lowest in accomplishing its intended financial purpose. It would be difficult, moreover, to conceive of any tax, except that levied on gross revenue, which, economically speaking, has so destructive an effect as these very death duties. Each time they make another breach in productive capital without giving any compensation for such injury, both social and economic. Since its revenue is appropriated for ordinary expenditure, the tax serves almost entirely for meeting current outlay, so that a part of the national capital is thus consumed annually. The fact that the assessment is levied only upon the amounts inherited, not upon the fortune as a whole, is rather a matter of fiscal technique and does not in the least alter the tendency already described. From a general point of view the tax can be approved only if its scale is kept low. High rates of assessment lead to the destruction of capital on a large scale, for

among constantly increasing groups of people they weaken the stimulus to economize and save, just as greatly augmented income taxes restrain many from earning high incomes, of which so large a share disappears into the public Treasury with utter disregard of the heavy risks generally incurred in obtaining them.

Death duties and income tax are two of the main causes of the disappearance of old fortunes and of the partitioning of the few large estates and forests which still exist in the densely populated Kingdom. A law of March 15, 1928, affords some ameliorations as far as the interests of the landscape are concerned. If, as is generally the case, the major part of the inheritance is not in liquid form, the high death duties may even make it impossible for an industrial enterprise to continue, in which case liquidation is forced, and sale is effected below value, thus inflicting grave injury on that stability and continuity of property which are so vital for economic life in general and for agriculture in particular when economic units remain intact.

In 1911 the schedules were raised, and progression was introduced. Six years later, war conditions caused a further increase of schedules, the progressive scale was accentuated, and gifts made during lifetime, as well as payments of life insurance, were subjected to tax. Finally, the needs of the Treasury compelled adoption of the latest and very considerable addition to the schedules in 1921.[16] A comparison of the percentages established in 1911 and 1921 reveals the relatively enormous burden since laid upon national wealth by a taxation which has already rendered it utterly impossible, in the case of inheritance through brothers and sisters, to make the income from the residue atone for the deficit caused by the death duty. The following table will illustrate this:

Heirs	*1911*	*1921*
Lineal descendants, husband, or wife	...	3.5
Grandchildren, etc.	...	5.25
Parents, etc.	...	14.5
Brothers and sisters	7.	18.
Nephews and nieces	10.	27.
Grandnephews, grandnieces, uncles, aunts, great-uncles, great-aunts	10.	38.

[16] *See* J. G. Claassen, *De Successiewet,* in J. P. Suyling, *Het nederlandsch Belastingrecht,* 2nd ed., pp. 69 *et seq.*

If such is the percentage levied on the smallest inheritances, to which the progressive schedule does not apply, the assessment on larger bequests may be imagined. The highest percentage for inheriting more than 500,000 guilders to be paid by lineal descendants or by husband or wife was 2.5 per cent in 1911 (or 9 per cent in the case of husband or wife without children or descendants), but since 1921 8 per cent. In 1911 children of brothers and sisters paid 15 per cent, as did their grandchildren, uncles, great-uncles, aunts, and great-aunts. Now grandchildren, being placed in the category of "all others," must pay 47 per cent, and the children of brothers and sisters, 36 per cent. Parents, grandparents, etc., paid 5½ per cent in 1911 in the case of maximum inheritances, whereas at present the percentage for this group is 19 per cent, or only 1 per cent less than it was for non-relatives in 1911. This is one of the fatal consequences of the War which led to such drastic increases. The law of December 28, 1926, has mitigated the tax, the extreme being 2.5 and 37 per cent. The law of March 15, 1928, caused a reduction in the proceeds of the income tax by some 20 per cent.

The yield of the death duties and of the duties on gifts was as follows for a period of years:[17]

Year	*Total yield*	*Of which lineal descendants and ascendants and husbands and wives with children paid*
	(*in guilders*)	
1911	17,194,082	3,688,926
1913	16,755,332	4,363,412
1914	17,621,193	3,596,678
1918	26,082,329	8,053,394
1921	32,253,688	12,247,878
1922	51,226,462	19,430,609*
1923	49,294,386	.....

* Since the duty paid by the ascendants had been raised to such an extent in 1921 that the rate became higher than for descendants, this figure includes only descendants and husbands and wives.

The effect of the general raising of the schedules is clearly shown both by the augmented yields and by the proportionately greater increase of revenue from that tax in the direct line of succession (excluding ascendants after 1911) which is by far the most fre-

[17] *Jaarcijfers*, 1915, p. 366; 1923-1924, p. 319.

quent, *viz.*, of children, husbands, and wives. Whereas the total yield gained by over 198 per cent between 1911 and 1922, that of the direct line rose by 424 per cent and even more, since after 1922 the revenue in case of inheritance by ascendants was no longer included.

It is true that the amount of inheritances subject to duties has risen, but this increase is far from proportionate to the yield of the tax. In 1911 such inheritances amounted to 320,816,000 guilders, and in 1921 to 431,675,000 guilders, or a gain of only 34.5 per cent. If the schedule had been unchanged, therefore, its surplus revenue for 1921 might have been expected to be over 4,961,000 guilders, but in reality it was then more than 12,247,000 guilders, or about two and a half times as much.[18]

The following table shows the increase of the totals of government taxation:[19]

	Total taxation		
Years	*Absolute (in thousands of guilders)*	*Per capita of the average population (in guilders)*	*Percentage per capita as for 1841-50*
1841-50	55,276	18.33	100.
1851-60	58,839	18.30	99.84
1861-70	67,755	19.48	106.27
1871-80	91,262	23.94	130.61
1881-90	108,553	25.17	137.32
1891-1900	122,997	25.36	138.35
1901-10	155,960	28.04	152.97
1911-20	386,186	60.19	328.37
1921	741,381	107.12	584.40
1922	667,765	94.96	518.06
1923	606,736	84.86	462.96

The smaller returns after 1921 were not a result of a diminished burden of taxation, but of reduced incomes, so that the financial strength of the Netherlands has declined. The weight has even become heavier since the schedules have not only been maintained, but fresh taxation has been introduced and existing taxes have been increased. As we have already noted, there has been considerable

[18] Cf. *Statistiek van Nederland,* No. 370 (*Statistiek der Rijksinkomsten voor het Jaar 1921*), p. 53.

[19] *Jaarcijfers,* 1923-1924, p. 294; *cf.* also the article *Vijf en twintig Jaren Belastingdruk,* in *De Werkgever* for December 1, 1925, pp. 341 *et seq.*

change in the proportionate share of various groups. Direct taxes accounted for 32.66 per cent of the total in 1841 to 1850, for 24.49 per cent in 1881 to 1890, and for 55.23 per cent in 1921; excise duties fell from 38.87 per cent in 1881 to 1890 to 17.7 per cent in 1921; and indirect taxes sank from 22.57 per cent in 1871 to 1880 to 11.12 per cent in 1921, though they rose again to some extent, particularly under the influence of the increased death duties already mentioned.

To sum up, we cannot escape the very clear impression that the fiscal development of the Netherlands has been unfavorable, and that it has been in direct proportion to the development of budgetary expenditure, which accurately reflected the situation during and after the War. It has been disproportionate, however, to the financial capacity of the nation as a whole, with the possible exception of the boom period in 1919-1920, when many were misled by a prosperity which was more apparent than real, but which was fostered by the authorities of the State, the provinces, and the communes alike. When the depression set in, the taxes proved as slow to disappear as they had been swift to come into being, and fresh assessments were even added. Thus industry and commerce are compelled to contend against officially imposed obstacles in the form of high taxes which greatly hinder them from gradually recovering profitableness and gravely impair their chances of strengthening themselves economically.

As yet the Netherlands has hardly entered upon a fiscal policy which spares economic resources because convinced that they will be more profitable even for the Treasury under low schedules than under high assessments which actually hamper prosperity and threaten to throttle it. Where taxation has been reduced, the good example has been given, not by the State, but by the municipalities, whose difficulties, though on a smaller scale, are often like those of the Government. A radical reduction of government assessments, not confined merely to shifting the burden, will be absolutely requisite for supporting private initiative and for accumulating capital, the two pillars of economic progress and, therefore, of economic recovery. If such reduction is to be realized, there must be, despite every difficulty, a very considerable retrenchment of ordinary expenditure to effect this judiciously so that all disadvantages may be avoided as far as possible.

CHAPTER IV

CONDITIONS IN POSSESSIONS OVERSEAS

Since the revision of the Constitution of the Netherlands in 1922 colonies no longer officially exist, since the Netherlands, the Netherlands East Indies, Surinam, and Curaçao are integral parts of the Kingdom, each possessing equal rights. For the time being at least, this question is somewhat academic; the former colonies do not yet possess complete autonomy, although the tendency is undoubtedly in the direction of increasing independence, especially in relation to administrative organs in the mother country.

The Netherlands East Indies have borne a large share of the burdens which the War and the period following it have imposed upon almost the entire world. Nevertheless, the difficulties have in large measure been of a different character, since Indian prosperity depends in great part upon the world market for certain very important exports, such as sugar, tobacco, rubber, coffee, tea, petroleum, and tin. The Netherlands East Indies have been affected less than the Netherlands by the collapse of central and eastern Europe, for they still have rich outlets in eastern Asia and the United States. Yet a crisis in one or more of the commodities mentioned has an immediate and serious effect in the Indies and may quickly ruin a large section of an activity gradually developed with much care and difficulty.

In its relation to European agriculture and mining the economics of the Netherlands East Indies is somewhat speculative in character since from the international point of view the great overseas empire of the Netherlands is still young and is only just entering upon economic development even though Javanese civilization itself is very ancient. Old countries have greater stability, are more fully developed, and, because their economic consolidation has progressed further, possess larger opportunities for strengthening themselves internally, so that they are self-supporting in much wider measure.

In the Netherlands East Indies no less than in the Netherlands the condition of public finance for many years gave rise to an anxiety which increased to such a degree that imminent financial ruin was feared. Augmented deficits, especially in ordinary budgets,

threatened to become permanent with all their ominous significance for the prospects of public credit and of finance generally, and meanwhile the public debt constantly increased, thus making a still wider cleft between revenue and expenditure. The danger was finally averted not only by drastic measures of retrenchment, but also in great part by the general improvement in economic conditions after 1922. The prices for various commodities gradually recovered and even, as in the case of rubber, mounted to very high figures. The magnitude of the peril is evident from the following statistics for the Indian budgets of 1912 to 1923, 1924 (provisional), 1925, and 1926 (estimate):[1]

	Total budget			*Ordinary budget*		
Year	*Expenditure*	*Revenue*	*Balance*	*Expenditure*	*Revenue*	*Balance*
			(in millions of guilders)			
1912	269	270.5	+1.5	247.7	270.5	+22.8
1913	327	311.3	—15.7	287.8	311.3	+23.5
1914	343.9	281.4	—62.5	295.3	281.4	—13.9
1915	347.8	309.7	—38.1	306.3	309.7	+3.4
1916	373	343.1	—29.9	330.6	343.1	+12.5
1917	420.4	360.1	—60.3	369.6	360.1	—9.5
1918	512.5	399.7	—112.8	421	384.3	—36.7
1919	721.1	543	—178.1	521.6	468.9	—52.7
1920	1,060.4	756.3	—304.1	728.6	563.8	—164.8
1921	1,056	791.7	—264.3	819.3	717.2	—102.1
1922	854.6	755.6	—99	745.6	747.2	+1.6
1923	714.5	647.8	—66.7	639.6	642.4	+2.8
1924	662.4	707.6	+45.2	607.5	695.5	+88
1925	694	653.1	—40.9	637.5	638.5	+1
1926	713.5	661.3	—52.2	655.1	655.9	+0.8

Between 1912 and 1921 the total deficits amounted to 1,064.3 million guilders, and those of the ordinary budget to 317.5 million guilders, whereas the entire deficit from 1921 to 1926 was estimated at 1,277.9 million guilders, while the deficit on the ordinary budget, as from 1912, was then set at more than 223.2 million guilders. The year 1922 marked a turning point in the right direction. The total budgetary deficit for that year was estimated at no less than 190.2 million guilders, of which 61.1 million were charged to the ordinary budget; but the Government succeeded in changing this deficit into

[1] Cf. *Begrooting van Nederlandsch-Indie voor 1926,* Annex B, 4, 86, pp. 140-141.

a small surplus of rather over 1.6 million guilders and in restricting the entire deficit to a little over 99 million guilders.

After deducting the excess war profits tax, which yielded 11,218,000 guilders in 1919, the revenue from taxation increased from 158,628,000 guilders in 1919[2] to 483,369,000 in 1924, the estimate for 1925 being 419,120,000 guilders. The highest figure was 497.7 million guilders in 1922, and there is no doubt that this heavy rise was mainly due to a drastic augmentation of assessments in the period 1919-1921, since the general scale of prosperity in the Netherlands East Indies during those years was far from favorable. Thus, to mention only a few data, imports receded from 1,116.2 million guilders in 1920 to 1,078.9 million in 1921, and exports were cut from 2,254 million guilders in 1920 to a little more than half in 1921, or to 1,188.8 million guilders.[3] Since the economic and financial capacity of this area depends almost entirely upon production for export, the last figure was particularly characteristic of the crisis then prevailing in the great plantations. Just as in the mother country, the very heavy increase of taxation came at a moment which was most inopportune for the economic situation.

After 1921, the Netherlands East Indies took a turn for the better in recovering financial equipoise by means of retrenchment, and the very remarkable achievements thus accomplished were abundantly clear from the statistics for expenditure in the ordinary budget from 1922 onward, as given in the table above. A reduction of net ordinary expenditure from 536 million guilders in 1921 to 408 million guilders in 1925 (estimated at 418 million for 1926) was very considerable indeed, especially when we remember that a large part of this outlay could not be cut, and that some items were even bound to expand automatically. After deducting interest and amortization of the Public Debt and of pensions, the net ordinary expenditure in 1919 was 433.4 million guilders and in 1924, 274.5 million, a reduction of 35 per cent.[4] About 45 million guilders were saved in allowances to the official staff for meeting the high cost of

[2] Not 144.7 million guilders, as M. C. van den Bussche calculates in his interesting article *De indische Financieen,* in the *Economisch-statistische Berichten* of November 25, 1925, p. 1035. The taxes, including the excess war profits tax, yielded 169,846,604 guilders in 1919.

[3] *Jaarcijfers, Kolonien,* 1921, pp. 74-75.

[4] Van den Bussche, *op. cit.*

living, and 40 million guilders in expenditure for the army. After 1923 the civil service staff was considerably diminished, the number of higher officials falling from 3,689 to 3,407 in 1924, the medium grades from 17,210 to 16,948, and the lower from 79,696 to 74,340. On the police alone 5.3 million guilders were saved, and there were several other such items. There has also been a great curtailment in extraordinary expenditure, which, often without giving immediate returns, greatly swelled both the amount of the public debt and the burden of interest upon it. Extraordinary expenditure had increased in even more rapid ratio than ordinary expenses, its net gain being as follows, though the figures fell after the climax in 1921.[5]

Year	(*in millions of guilders*)
1917	48.9
1918	69.4
1919	90.
1920	138.4
1921	189.4
1922	91.7
1923	64.9
1924	40.7
1925	37.8
1926	45.9

The necessity of this course of development is shown by the increase of public debt and its burden on the ordinary budget for interest and sinking fund. The amount of the old consolidated debt resulting from the loans of 1883 and 1898, and still unreduced on December 31, 1925, was 52.9 million guilders. From 1915 to 1923, inclusive, fifteen additional loans were issued, the largest being the 6 per cent loan of 1919 to the amount of 180 million guilders for consolidation of the heavy accumulated floating debt due the Java Bank. The total consolidated debt on December 31, 1925, was 1,104,537,272 guilders, which was to be reduced to 1,080,739,980 guilders during 1926; and there was also a floating debt of 75 million guilders together with 35 million guilders of uncovered notes in circulation. The amount for interest and amortization, which had been only 20.3 million guilders in 1919, had risen to 78 million guil-

[5] Besides these amounts, 36,952,479 guilders net (including the estimates for 1925 and 1926) were appropriated for naval expansion, and 8,156,133 guilders for the food supply.

ders in 1923; but this is as yet restricted artificially since payments for amortization of the Dollar and Sterling Loans of 1921, 1922, and 1923 will not begin until 1932. In view of this heavier load after 1932, a wise policy has already commenced extra amortizations of the other loans, thus obtaining compensation for the burden. The amount set aside for interest and amortization for 1925 remains fixed at 82,426,000, but after this, up to and including 1933, the total appropriation for redemption will be 73,795,000 guilders more than the 654,647,000 guilders provided for the loan schemes.

This prudent policy is very different from that of previous years, when excessive optimism ran riot. The case of the largest loan, that of 1919, was very remarkable and was characteristic of the unsound condition of public finance. The Government's debt to the Java Bank had risen to more than 90 million guilders in July, 1919, when twice that amount was borrowed, mainly for funding this debt; but the Java Bank remained the Government's creditor for the 128 million guilders which were subscribed in the Netherlands East Indies. The Bank's loans in this connection increased more than 95 million guilders during the single month of August, 1919, and the success of the whole enterprise was due particularly to the artificial and unsound support which the Java Bank itself afforded by allowing credit facilities to subscribers of the loan in the shape of a low rate of interest (4½ per cent) and a surplus of only 10 per cent. In this respect the example set by the Netherlands Bank in the mother country on the occasion of previous issues of loans was exactly followed. Thus the funding was a mere alteration of form rather than a measure which really meant a change. There was no reduction of funds available for short-term credit, but the item of discounts, in which Treasury paper occupied so large a place, was decreased in favor of the category of loans against which the Bank held Netherlands East Indian Government bonds as security. The fact that conditions were far from auspicious for the issue of government loans does not place these facilities in a better light. Dr. G. M. Verrijn Stuart rightly observes, in this connection, that the only sound method here was payment at high cost. "What is scarce," he writes, "necessarily rises in value."[6] There is no reason whatever

[6] *See* Dr. Verrijn Stuart's article, *Geldproblemen in Nederlandsch-Indie* in *De Economist,* 1921, p. 254.

for not applying this fundamental economic truth to government credit policy.

Manipulation of economic reality is always wrong, yet this was done in regard to government credit, although, if such support had been lacking, events would doubtless have shown that the Government had ventured on a downward course in financial policy. The success of the loan was due only in small measure to any well-founded confidence of investing capital that the financial policy of the Government was sound, as is very evident from the fact that this very period marked the beginning of the constant introduction and increase of taxation, as well as of unprecedented expansion of expenditure. Moreover, the credit balance of the Government with the Java Bank after the loan was very soon changed to a debit balance which rose from just over 2,817,000 guilders on January 3, 1920, to more than 145,129,000 guilders on November 3 of the same year.[7] The financial chaos was greater than ever. Rumors of a fresh loan, this time of 7 per cent, caused the price of the 6 per cent 1919 bonds to decline to 92 per cent of their par value, thus exposing holders who had borrowed money on them to the danger of demands from the Java Bank to make good the difference, while writs of execution and further reductions in market value were also in prospect. Thus even at that time the deficit in the budget had wrought its own revenge, although it had by no means reached its maximum. Finally, by the end of 1921, the floating debt had risen to the enormous sum of 530 million guilders, but retrenchment at last set in and it became possible to consolidate the whole, even if on rather onerous terms. The floating debt, at a safe estimate, at present scarcely exceeds 100 million guilders.[8]

There is reason to believe that it will no longer be necessary to resort to the dangerous expedient of balancing the budget by issuing Treasury paper, so that henceforth this form of government indebtedness may be restricted to its normal function of cash operations. Nevertheless, the situation in the Netherlands East Indies is never entirely certain, or, rather, is less certain than in the case of other and older countries whose financial condition is not so wholly subject to the development of prices in the world market for certain important products. Much will depend upon the course of business

[7] Dr. Verrijn Stuart, *op. cit.*, p. 256.
[8] Van den Bussche, *op. cit.*, p. 1054.

in enterprises and monopolies operated by the Indian Government. The profit from the tin trade of the State, for example, is estimated at 31.8 million guilders in 1926, but the value of this metal is far from stable. The opium monopoly is also a considerable source of revenue, although it is steadily declining under the influence of activity against it. In 1926 it was expected to yield 25.1 million guilders, as against 33.2 million in 1922.

Thus there is much uncertainty, which, now that the budget at last is balanced again, makes great circumspection absolutely necessary. Happily, unlike conditions in older countries, government expenditure here may be more easily restricted for the time being, since many activities are only in their initial stages, so that some degree of delay in their development may be regarded as a very justifiable means of avoiding worse complications. In particular, the system of apportioning extraordinary expenditure was possibly carried too far, but at any rate, during a period of recovery which had scarcely begun, an excess of zeal in this direction was preferable to the previous consumption of national wealth on a scale which made State bankruptcy seem imminent. The honor of having thus far averted such a calamity is largely due to the Governor-General of the Netherlands East Indies, Dr. D. Fock.

Turning to the western overseas territories of the Netherlands, we note that Surinam, or Dutch Guiana, is still a backward area because of its sparse population and the paucity of capital invested in its enterprises, although it possesses great possibilities in the fertility of its soil, its valuable forests, and its mineral wealth.[9] On December 31, 1923, this region, five times as large as the mother country, had 112,818 inhabitants, of whom only 1,422 were Europeans. Each year a considerable proportion of the expenditure must be met from subsidies granted by the mother country, although

[9] For the following pages *cf.* J. C. Kielstra (Professor in the Agricultural Academy at Wageningen), *Wirtschaftliche und soziale Probleme in Niederländisch-Westindien,* in *Kieler Vorträge,* ed. B. Harms, xiii, 1925. *See also Jaarcijfers, Kolonien,* until their discontinuance in 1921. The Netherlands East Indies now have a special series, *Statistisch Jaaroverzicht voor Nederlandsch-Indie,* but this no longer discusses a number of topics. For the Netherlands West Indies we have only the *Koloniale Verslagen,* which have a far more restricted circulation and are much less practically arranged, thus constituting an example of the unwise economy to which Surinam and Curaçao have been sacrificed.

strenuous efforts are made to practise an economy which is particularly urgent in view of the fact that the administrative system is too large and too burdensome. The total estimated expenditure for the current year 1925 was 8,078,081 guilders as against a revenue of only 4,720,565 guilders. Of the resultant deficit 830,000 guilders were supplied by loans, and the subsidy was accordingly fixed at 2,527,516 guilders. The estimated government subsidy for 1926 was the same, although 598,444 guilders were saved on expenditure. On the other hand, the revenue was expected to yield the smaller amount of 4,321,121 guilders, to which must be added loans of 631,000 guilders. The pressure towards retrenchment came from the Netherlands, for the provisional budget, drawn up in Surinam, showed a total of 8,051,300 guilders for expenditure as against the 7,479,637 guilders of the bill laid before Parliament by the Home Government.

The annual position of the trade balance is a useful criterion for the economic situation. Surinam is mainly an agricultural colony where plantations cultivate various products for the world market. After the abolition of slavery in 1863 the surplus of exports regularly became one of imports with a deficit made good by government subsidy. The decline in exports has been further accentuated since 1873, when the State ceased to supervise the former slaves and when the negro permanently disappeared from the plantations. After 1872, on the other hand, various measures were adopted for the promotion of immigration, and in 1878 the Immigration Fund was established for this purpose. At first British Indians were enlisted as coolies, and after 1890 Javanese were employed as well. By the end of 1923 Surinam had 30,974 British Indians and 18,685 Javanese, of whom 11,389 Javanese and 149 British Indians were contract-coolies.

The proportionate values of imports and exports are given by the following table:

Year	*Imports* (*in guilders*)	*Exports*
1845	1,597,984	3,437,247
1860	3,056,946	4,524,001
1865	4,504,520	2,235,399
1875	3,125,415	2,409,335
1890	5,366,258	4,272,692
1900	6,166,608	5,540,855
1910	7,424,698	8,345,477

The intervening years likewise showed a constant surplus of imports; and although the period of the War brought a change by raising the prices of various exports, Surinam suffered much even then, especially as regards the supply of food. In 1919 the balance of trade again became unfavorable, as is clear from the following figures:

Year	*Imports* (*in guilders*)	*Exports*
1915	5,445,866	6,949,315
1916	5,911,326	8,054,002
1917	7,645,941	8,582,170
1918	6,157,727	7,080,019
1919	8,996,144	8,987,870
1920	13,718,026	7,477,512
1921	13,150,025	6,562,014
1922	10,563,579	5,688,370
1923	7,885,161	8,388,338

In 1923 the tide had turned once more with an export surplus of 500,000 guilders, the quantities and values of the principal commodities being as follows:

Commodities	*Quantities*	*Values* (*in guilders*)
Balata (wild rubber)	767,036 kg.	2,596,961
Cocoa	1,413,409 kg.	565,312
Coffee	2,911,741 kg.	1,556,555
Sugar	8,760,555 kg.	2,638,700
Gold (crude)	365,442.8 gr.	546,803

The cultivation of cocoa is constantly declining in consequence of plant disease and low prices, but coffee is in a much better position, while small-scale agriculture produces chiefly rice and maize for the local market, which is easily overstocked. Forestry, mainly controlled by the Government, yielded 324,254.73 guilders in 1923 and demanded an expenditure of 106,025.77½ guilders. If more intensive exploitation were possible, the revenue would doubtless be much larger, but here the grave difficulty is the question of transportation.

The small proportion of the area under cultivation may be seen from the fact that on December 31, 1923, sugar plantations covered 2,614 hectares, and cocoa and other agricultural estates 8,996 hectares, or 11,610 hectares in all, to which must be added small scale agriculture of 6,602 hectares in the settled districts, and 13,408

hectares outside such areas, or 20,010 hectares in all, making a grand total of 31,620 hectares, or only 2 per cent of the entire area of Surinam.

A few more figures may help to cast light upon the financial capacity of the country. The total assessable incomes[10] amounted to 11,364,110 guilders in 1921, to 14,673,750 guilders in 1922, and to 13,929,500 guilders in 1923, thus revealing very conclusively the great contrast with the budget of approximately 8 million guilders. So long as the income of the people does not increase through improvement in the general economic situation, the subsidy cannot disappear. No hopes can be based on additional taxation, and while the retrenchment achieved in the budget is necessary and useful, in itself it cannot further the prosperity of the country. The great desideratum is that the spirit of enterprise in the mother country shall take a greater interest than heretofore in this land which is so richly endowed by nature in many regards.

Curaçao is of particular importance because of its industry and commerce. On January 1, 1925, its population numbered 56,522, of whom 35,062 lived on the main island.

Generally speaking, it would be difficult to imagine a greater contrast than that between Surinam and Curaçao, and the difference in regard to the economic situation and prospect is also very wide. Like Surinam, Curaçao was in distress for a number of years, and here likewise administration was possible only by means of regular grants-in-aid from the mother country. This situation, however, has changed rapidly during the last few years, since the Royal Dutch Shell Company has established a petroleum refinery in Curaçao which stores the crude oil imported from Venezuela, works it over, and forwards it, thus creating such activity in the main island that there is actually a shortage of labor. Much money is now being earned, even by the lower classes, and the effect upon the Treasury is quite noticeable. The petroleum industry is still in its infancy, but is progressing with giant strides. Thus, imports of crude oil amounted to 292,311 tons in 1922, to 551,171 in 1923, and to more than double, 1,165,385 in 1924. Out of total exports valued at 18,647,451 guilders in 1923 and at 32,179,265 guilders in 1924, the shipments merely of oil and oil products were as follows:

[10] The assessable income in Surinam begins at 500 guilders.

	1923	*1924*
	(*in guilders*)	
Oil residue	8,596,462	11,285,340
Gas	4,721	67,501
Gasoline	3,844,119	5,383,491
Machine oil	.....	162,269
Crude oil	1,278,277	8,764,091
Lubricating oil	7,540	1,322,242

Exports in 1924 were 13,531,814 guilders more than in 1923, and imports 21,641,382 guilders more, or 51,189,100 guilders in 1924 as against 29,547,718 in 1923.

Another important enterprise is the *Mijn-Maatschappij Curaçao* which works the phosphate deposits on the main island. Exports of phosphoric lime, which amounted to 15,431,000 kilos in 1914, and to twice as much, or 31,308,000 kilos, in 1915, suddenly fell to 3,582,000 kilos in 1917 and to nothing in 1918. In 1919, however, they amounted to 10,058,000 kilos, which rose by leaps and bounds to 85,855,000 in 1923 and to 100,471,000 in 1924, the value in 1924 being 1,996,386 guilders as against 1,856,655 guilders in 1923.

The panama hat industry has declined, the exports being 569,235 guilders in 1923 and only 483,628 in 1924; but, on the other hand, the retail trade is progressing well, thanks to larger profits.

The Post Office is also a good barometer for economic development. Its revenue in 1923 amounted to 67,864.30 guilders as against expenditures of 41,633.45 guilders, the latter falling to 31,958.02 guilders in 1924 and the former rising to 108,186.25 guilders.

Obviously the improvement in the situation is reflected in the budget, which for 1924 showed an estimated expenditure of 2,506,-785 guilders as against a revenue of 1,949,055 guilders, so that the government subsidy was fixed at 557,730 guilders. As a matter of fact, however, although the regulations remained unchanged during that year, taxation yielded 1,692,920 guilders, or 374,145 more than the estimate; and the total increase in revenue from all sources was 567,212 guilders, or more in itself than the government subsidy on a total estimate of 1,949,055 guilders. The actual yield, therefore, was 2,516,267 guilders, so that the budget was balanced, and that, as just observed, without resorting to higher taxation. Nevertheless, the Government remains prudent and the estimates for 1925

show an expenditure of 2,378,311 guilders with a revenue of 2,128,405 guilders, thus presupposing a State subsidy of 249,906 guilders. For 1926 the figures are 2,580,829 guilders for expenditure and 2,349,600 guilders for revenue, with a government subsidy of 231,229 guilders.

The increase of expenditure in this case is not a bad omen, for it is connected with the obligation of providing for various matters arising from the rapid economic development of the island of Curaçao, as well as with the necessity of undertaking certain public works delayed by the policy of retrenchment during the last few years. Present prospects, however, are such that it appears by no means impossible that the actual revenue of 1926 may exceed the estimates to an extent which, for the first time in many decades, may render a subsidy unnecessary. In any case, humanly speaking, it is very probable that in the near future the Home Government will no longer be obliged to subsidize Curaçao.

Obviously, port traffic, which is so important for the main island with its splendid natural harbor, has developed on a large scale, as is clear from the following table of inward clearings:

Year	*Steamers*	*Net tonnage in cubic meters*	*Sailing ships*	*Net tonnage in cubic meters*
1923	1,470	4,251,600	1,276	268,248
1924	1,791	7,034,108	1,384	346,772

Whereas the future promises well for Curaçao and, before long, for Oruba, conditions in the other islands, especially the Windward Islands of St. Martin (the Netherlands section), St. Eustace, and Saba, will probably remain unsatisfactory. Their area and resources are very limited, and already there is a certain contrast between the two groups, which are as far apart as Amsterdam and Lisbon. It is not impossible that when Curaçao becomes wholly self-supporting, there will be a much stronger tendency to loosen the financial bonds with the Windward Islands, which bring in little and cost much. The dominant position of the main island is obvious from the fact that out of 2,094 assessments for income tax in the fiscal year 1922-1923, no less than 1,711 were levied on residents of Curaçao; and one can readily understand a certain lack of enthusiasm for subsidizing territories with which ties can only be loose because of economic and geographical circumstances.

PART II

THE WAR AND THE PROSPERITY OF THE NETHERLANDS

The economic effect exercised upon various countries by the War and the period immediately following it, has frequently been discussed. So far as the Netherlands is concerned, this small kingdom, which succeeded in maintaining neutrality amid a world in arms, has often been regarded as having gained, through its position as a noncombatant, great economic advantages, so that when peace came, it was better equipped for the economic struggle than ever before; and many suppose that the very conditions which brought other countries to the brink of the abyss increased the prosperity of the Netherlands not only as compared with the majority of the belligerents, who were exhausted by the conflict, but even absolutely.

The present writer is convinced, however, that such a view ignores actual conditions so far as the Netherlands is concerned, and that there is every reason to believe that the Netherlands has been compelled to bear its share of universal impoverishment. In the nature of the case, neither the optimistic nor the pessimistic point of view can be definitely proved, for it is impossible to assign exact values to many important factors, particularly the indirect results or "costs," and it would be necessary to compare the actual situation as developed during and after the War with theoretical conditions which might have existed if the world had been spared the disaster of 1914. One can do no more than produce arguments which confirm a general impression and which may claim to present an outline more or less approximate.

Accordingly, the observations in the following pages, based upon data accessible to all, are restricted to such an outline. As yet it is impossible to do more than make this or that view seem plausible, though future historians may be able to delve more deeply and cast light upon many details of importance for a general survey.

We may begin our study with the known assets of the balance-sheet during and after the War.[1] As we have already remarked, the

[1] We may here refer to the admirable study of Léon Nemry (Consul-General and Commercial Attaché to the Belgian Legation at The Hague), *Les*

war profits tax yielded nearly 800 million guilders which would make the total of such profits amount to 2,500 million guilders up to January 1, 1919. M. Nemry[2] is of the opinion that account should also be taken of wide-reaching improvements in plant and machinery which remained untaxed; but this view is hardly correct, since "net profit" was generally considered to be represented by an establishment's net income or net returns for the income tax (Art. 10 of the Income Tax Act), so that, in the main, only such items could be written off or such claims allowed as were in keeping "with proper commercial usage." Accordingly, the purchase of new machinery, etc., did not come under the definition of "net profit" in so far as it could be financed by such writing-off. Any amount above this, however, was taxable. It is true that there was an allowance for extra writing-off in connection with high prices and risks of business, but the Government expressly declared that, as a rule, such deductions might not exceed the amount which might have been allowed if there had been no war. Such a course was quite intelligible unless the Government were willing to see the entire revenue of the tax disappear through being written off or put in reserve. It seems hardly probable, therefore, that the amount of 2,500 million guilders should be increased by any considerable figure. Moreover, under the system of very strict supervision by government accountants (appointed for this purpose, but retained after the repeal of the tax), evasions in declarations cannot have been very large. A deterrent effect, furthermore, was doubtless exercised by severe penalties which included not only high fines for various infringements, but also imprisonment up to two years in case of false documents or declarations.

In regard to the two and a half billions one must consider another factor which undoubtedly was very important quantitatively, although it cannot be estimated in figures. As a matter of fact, a large part of the war profits were not made at the expense of foreign markets, but were gained from the mother country, despite all restrictions upon the home market for certain products. We here allude particularly to the high government prices for articles of food and raw materials supplied by domestic agriculture, these prices being

Pays-Bas après la guerre (1925), in which Chapter XI, *Le Bilan de la guerre et de l'après-guerre,* contains an exhaustive discussion of the position of the guilder, pp. 233-264.

[2] Nemry, *op. cit.*, p. 246.

passed on to the home consumers and, as regards the deficit, to the taxpayers, so that the Netherlands herself paid 99 per cent of them. One can make only a random guess, but it seems fairly safe to say that at least half a billion may be deducted from the total of these gains before we reach what may be called national war profits; and probably the amount of home profits of this type was much greater.

Moreover, the Treasury was one-sided in its distress, for it took money where there were gains and utterly disregarded losses. If it be asked whether any country has profited by the conflict, the narrow, fiscal point of view should not be taken, but one should seek to gain a general survey of the whole. The excess war profits tax was a kind of emergency measure, and, therefore, inevitable, but, none the less, unjust. Despite its appearance, it was, in reality, a tax on gross gains, since it took no account of the risk-premium, which was often very high, included in the profits taxed. All were lumped together, gains obtained at very great risk being assessed at 30 per cent as well as those for which no chance had been incurred, such as payments made by the United States on account of Netherlands vessels commandeered under Right of Angary. This system does no harm if the tax is low, but when it amounts to 30 per cent the conditions are somewhat different. A factor which was incalculable, but which undoubtedly exercised an adverse influence on production and traffic, was the number of transactions not undertaken because of this heavy tax, since, in case of mishap, the residue of 70 per cent would not adequately cover the risk incurred. It was necessary to face another inequality in this connection: if risks were ventured unsuccessfully, there was no compensation for loss. The taxpayer took his chances for good and evil alike; the Treasury could only gain. Here again the position was intelligible, but was nevertheless contrary to all concepts of equity.

Some deduction for war losses must, therefore, be made from the two billion guilders of war profits. Before entering into details, however, a few comments may be made upon the gains themselves. So far as they were not distributed or spent, they were chiefly invested in the taxpayers' own businesses or in the enterprises of others. M. Nemry takes a very optimistic view indeed when he asserts that such a policy would mean a very considerable and permanent increase in real values: "If," he says, "during those times of crisis, this accretion constitutes partly the origin of charges which strongly affect

the cost price, it constitutes nevertheless a progress whose effectiveness will manifest itself as soon as the general state of affairs improves." Yet it would hardly be correct to infer that such a policy implies a permanent and very considerable growth of real values, for expansion of this type may actually mean a loss of capital because of the crisis which follows. During a period of greatly reduced purchasing capacity, high prices are tantamount to a loss of capital from every point of view, for under such circumstances dead capital is often worse than none at all, since efforts are made to keep business going as long as possible, with every chance of increasing losses already contracted. Capital possesses value only in so far as it is profitable, or if there is at least a probability that it will yield a normal rate of interest within a future not too remote. An enterprise receives no advantage from the finest equipment if it becomes bankrupt before conditions improve; and the community suffers a loss even when another party is ready to take over the business for a mere pittance. In a very large number of cases, however, even this mode of continuation is lacking, and practically the entire capital disappears.

All this was actually experienced by many banks. When the depression began, they extended their credits for unsound debtors whose assets had rapidly declined in value, and finally they were obliged to reorganize their own capital in great measure by writing off enormous sums as irretrievably lost. They exercised insufficient supervision over running credits, and the debit columns in their published balance-sheets made it increasingly difficult as these entries increased in magnitude to form an accurate opinion of their own condition, so that confidence in banking generally was slowly but surely undermined. Serious losses, jeopardizing their very existence, seemed to have been suffered by two great firms, the *Bank-Associatie* and the *Rotterdamsche Bankvereeniging* as well as by certain smaller concerns, such as Marx and Company's bank and some Roman Catholic middle-class banks in Haarlem and Bois-le-Duc. High finance, however, led by or coöperating with the Netherlands Bank, succeeded in preventing a collapse of banking credit, so that losses were finally checked, although they remained extremely large.

It is impossible to estimate how much should be deducted from the two billions of war profits on account of these losses. Part of

them were incurred in connection with the improvement and extension of enterprises which were confronted with rising cost prices and falling selling prices. Others were encountered in greater or less degree by practically every bank in consequence of the depression which was an immediate result of the expansion of credit, and which gradually necessitated restriction of credit and liquidation on a large scale.

The phenomenal fall in the prices of shipping shares has already been noted in the opening pages of this study. It is quite true that a rise or decline in stocks denotes of itself neither enrichment nor impoverishment of national capital;[3] but yet, altogether apart from superficial fluctuations resulting from speculation, they are very closely connected with questions of profit, and thus with the financial outlook. When such shares as Royal Dutch, *Handelsvereeniging Amsterdam*, and Philips' Lamps fell between 1920 and 1922 from over 1,000 per cent to 400, 158, and 308, respectively, this meant more than a mere loss to buyers at top prices, even though the maximum values were forced. The universal impoverishment affected these enterprises which operated with enormous amounts, since the value of their capital sank in proportion as their profits declined. This phenomenon was manifest everywhere. The shares of an international concern like Jurgens went down during these same years from 328 per cent to 55 per cent; and those of the Royal Dutch Lloyd, finally saved by a government grant-in-aid of 4.5 million guilders, fell from 231 per cent in 1919 to very nearly zero.

If the capital value of an enterprise is really based on its earning power, the losses have been very great indeed. It is true that some enterprises showed abnormal profits during the period of the War as well as in 1919 and 1920; and where such gains declined, there is as yet no reason to assume a loss of capital. On the other hand, this must be supposed to have occurred where there was no prospect of speedy compensation, as in the case of the Royal Dutch Lloyd and in a number of other instances on a smaller scale, as well as where the profits remained below the rate of interest prevailing for first-class securities.

Beyond a doubt a very large part of the war profits vanished during the subsequent years. An indirect indication of this is the decreasing revenue of the 5 per cent tax on dividends and directors'

[3] *See* Pierson, *Leerboek der Staathuishoudkunde,* I, ch. IV, §3.

fees, which began one year after the commencement of the depression,[4] the yield of this levy being as follows:

Year	*(in thousands of guilders)*
1919	15,436
1920	34,043
1921	40,468
1922	24,508
1923	17,521
1924	15,118

The revenue for 1924, therefore, was even lower than for the first year in which the assessment took effect. It is quite true that the tax does not include the entire business world, for it applies only to limited companies, limited liability companies (*sociétés commanditaires*), coöperative and other societies, and mutual insurance companies; but it embraces enough for a reasoned judgment regarding enterprises coming under other legal categories.

Bankruptcy statistics may also contribute towards forming an approximate estimate, although here we must not forget that, in obedience to a government hint, the Courts, in consideration of the difficulties of the period, observed a certain reserve in cases of bankruptcy. Hence the figures are, in reality, somewhat manipulated. As a matter of fact, the number of bankruptcies increased from 891 in 1917 to 4,212 in 1923, the proportion of assets to liabilities falling from 28.2 per cent in 1918 to 21.46 per cent in 1922. Of course the majority of war losses did not lead to the extreme of bankruptcy, but were written off from existing capital.

Despite all criticism of the use of these statistics, the declarations regarding property tax are important in respect of the subject here under consideration. The property assessed under this head amounted to 7,680,349,000 guilders in 1914-1915 and to 12,323,-831,000 in 1922-1923. Although this would apparently mean a considerable increase, these sums are in reality incommensurate, for the population gained by about one million during this period, while the value of money fell considerably, as is shown by the index-numbers for wholesale and retail prices and by the rise of the prices of

[4] The tax is payable in the year following the financial year in which the profits in question are made.

houses and land, etc. The figure for 1922-1923 ought, therefore, to receive a double correction downward.

If the value of money had remained unchanged, and if wealth had increased in the same ratio as the population, it would have been approximately 15 per cent more than the total of 1914-1915, or 8,832,401,000 guilders. Had there been no depreciation, this would have indicated stability of national wealth; but in 1922-1923 the purchasing power of the guilder had fallen by about 40 per cent, and even now, after a return to a gold basis on April 29, 1925, conditions have hardly improved because the actual value of gold itself has decreased so much since 1914. To regain the basis of 1914, therefore, it would be necessary to multiply the total of approximately 12.3 million guilders by 0.6, thus giving 7,394,298,600 guilders, or, despite the increase of 15 per cent in the population, 286,030,400 guilders less than the property assessed in 1914, and 1,438,102,400 guilders less than would have been necessary to maintain the figure per capita of the population. There is, however, a certain incongruity, since amounts up to 13,000 guilders were exempt from taxation until May 1, 1915, this later being extended to sums up to 16,000 guilders, so that a certain number between 13,000 and 16,000 guilders were doubtless included in the total for 1914-1915, but not in that for 1922-1923. If we assume that the deficit of 286 million guilders may be explained entirely by the exemption of amounts between 13,000 guilders and 16,000 guilders, which is probably too liberal a point of view,[5] we reach a figure for 1922-1923 equal to that for 1914-1915; but the deficit of 15 per cent still remains in connection with the increase in population, *i.e.*, no less than 1,152,052,350 guilders in terms of the value of money in 1914. Accordingly, as compared with the monetary standard of 1922-1923, there is a shortage of five-thirds the amount named, or nearly two billions—1,920,087,250 guilders, to be exact—which represents the total sum of national war profits.

One should not forget, however, that these profits also reveal how

[5] Fortunes of between 13,000 and 15,000 guilders made an aggregate of 148,797,000 guilders in 1914-1915. In 1915-1916, when the new limit of 16,000 guilders was first applied, the total amount of property assessed was 7,311 million guilders, *i.e.*, 369 million guilders less than the preceding year. This difference, however, was caused not only by raising the limit, but was also due to the effects of the crisis arising from the War.

money had depreciated, even during its worst period, so that in considering the value of the guilder it is quite justifiable to compare the two billions of profit with the almost equal amount which forms the basis of the fall of 40 per cent in 1922-1923 when given in guilders. If one should argue that the development of the absolute status of the national wealth is not given when the factor of augmented population is taken into account, the rebuttal must be that the only true method of investigation is a thorough study of the question whether the Netherlands made any real progress during the period between 1914 and 1922 because of the War and her position as a neutral. If the statistics already cited justify the conclusion that national wealth remained unchanged during the nine years to which these figures apply, such a stagnation implies a very significant decline in national wealth in view of a population increased by a million.

We may, and must, go even further. In so far as the nation's gains from the War have been capitalized, they are included in the general statistics of wealth; the two billions vanish if this wealth shows no progress whatever when given in terms of the purchasing value in 1914. There was, therefore, entirely too much optimism in the theory that excess war profits would counterbalance the loss in capital wealth. Of the two billions, the State consumed 800 million guilders, and what finally remained of the balance of 1,200 million guilders after deducting the very heavy private consumption, must have been discounted in the statistics of wealth upon which the deficit under discussion has been based.

As if all this were not bad enough, another factor makes it even worse. The national capital of rather more than 12,300 million guilders in 1922-1923 includes, as Professor Treub rightly remarks, some 2,000 million guilders of crisis debt which did not exist before, and which represents little but fictitious capital. Of this, according to Treub's rough estimate, some 10 or 15 per cent survives in permanent values, but the rest has been spent, so that there is a very wide margin between the sum total of the private fortunes and the wealth of the nation as a whole. In the case of the latter, uncovered claims, of course, do not count; government bonds, except for the 10 or 15 per cent mentioned above, are not liabilities on national capital, although for their holders they represent demands on the future fruits of the nation's enterprise.

In accordance with the property tax, we have calculated the na-

tional wealth of the Kingdom, on the basis of 1914, as equal to that in the same year 1914, and, therefore, as approximately 7,680 million guilders. On this hypothesis, however, it would seem that 1,000 million guilders must be deducted, thus destroying the theory that the absolute value of property in the Netherlands has not changed, quite apart from the number of inhabitants.

Unfortunately, we have no exact knowledge regarding the smaller fortunes, *i.e.*, those below 13,000 guilders until 1915 and below 16,000 guilders afterward, since the revenue from them is not listed in the general returns of the income tax. On the Socialist side the statement has been made, especially by Professor Bonger, that the larger fortunes of over 50,000 guilders have manifested a special tendency to decline, while the smaller ones have increased very considerably; and this is undoubtedly true, as the following table will show:[6]

Amount of fortunes (in thousands of guilders)	*Number of assessments*			*Total amount of fortunes (in millions of guilders)*		
	1914-15	*1920-21*	*1923-24*	*1914-15*	*1920-21*	*1923-24*
13-15	11,050	.....	.....	148.7	.....	.....
15-20	19,486	24,886	28,834	326.9	431.1	498.9
20-30	21,945	39,520	42,096	523.3	943.6	1,007.9
30-40	12,163	23,135	23,063	413.3	785.4	784.
40-50	7,818	14,900	15,024	344.5	656.3	661.6
50-75	10,703	20,445	19,929	645.4	1,230.2	1,200.
75-100	5,373	10,350	9,885	461.	886.2	845.4
100-150	5,591	10,077	9,355	677.1	1,210.1	1,122.9
150-200	2,702	4,646	4,370	464.5	797.6	750.5
200-300	2,708	4,588	3,953	657.5	1,105.8	957.7
300-500	2,087	3,396	2,876	793.3	1,287.6	1,088.6
500-750	895	1,567	1,311	542.2	947.9	784.
750-1,000	401	700	546	344.6	602.5	469.9
1,000-1,500	322	573	446	388.9	695.4	539.9
1,500-2,000	130	268	197	220.6	464.9	337.7
2,000-5,000	170	329	250	484.1	972.5	728.5
5,000-10,000	21	55	44	131.7	367.9	286.2
10,000 and over	7	14	9	111.8	203.5	118.4
Total	103,572	159,449	162,188	7,680. *	13,589.4*	12,182.8*

* In the columns the tens of thousands have been disregarded, but they are included in the totals. The total for 1921-1922 declined to 13,284.1 million guilders, and that for 1922-1923 to 12,323.8 million guilders.

[6] *Jaarcijfers*, 1923-1924, p. 142.

In view of the growth of the smaller fortunes between 16,000 and 50,000 guilders, it is exceedingly probable that those below 16,000 guilders have also increased, although there is some reason to doubt this when one studies the statistics of deposits in the State Postal Savings Bank, the principal institution of this type for the lower middle classes and the workingmen. These show that the record year 1919, when the balance of deposits amounted to 19,917,000 guilders, was followed by one of decline, with a deficit of 2,054,000 guilders. Conditions improved in 1921, when there was a surplus of 3,454,000 guilders, while that of 1922 was 7,241,000 guilders, only to be followed by another fall in 1923 with deposits of 251,000 guilders less than withdrawals. The depression, losses on market values, and unemployment naturally were no more merciful to small fortunes than to large, and though we may assume that those less than 16,000 guilders likewise showed relatively the same changes as those of 50,000 guilders or less, any overestimate must be avoided. It is, of course, quite impossible to suppose that a deficit reckoned at 1,000 million guilders according to the value of the guilder in 1914 has been covered by the progress of this group of smallest proprietors, for even a gain of 100 million guilders would probably be too optimistic a guess, and this would recoup only about 10 per cent of the shortage just mentioned.

Despite all the profits gained from the War, the unfavorable situation of the national wealth revealed by the calculations given above is explained to a considerable extent by the war losses to which many firms less blessed by fortune were exposed during and after the struggle. Yet another adverse factor was the depression which followed the period of expansion, and which made it impossible to sell many stocks purchased or manufactured at a high cost unless the holders were prepared to cut their losses. When, moreover, inflation increased in Germany day by day, the Netherlands was flooded by German wares, this influx being unhealthily fostered by quotations of the mark which were too low in proportion to the scale of prices prevailing in Germany. There was a period, for instance, during which the Netherlands shipyards were practically idle, while Hamburg and other German ports had more orders from the Netherlands for building, and especially for repairing, than they could fill on time. The competition, which was pathological in the true sense of the term, has now disappeared. In many cases it gradually

became evident that uncertainty regarding the value of money seriously hindered rapid liquidation of transactions, and that contracts were frequently as easily made as they were trickily executed. Those who demanded certainty regarding price and time of delivery often found themselves converted, sooner or later, from endeavoring to buy according to rates of exchange; but meanwhile the market for the Netherlands' products was gravely injured.

Another important factor which adversely influenced national prosperity and wealth was Russia's repudiation of her government and other debts. The reports of the Netherlands Bank for 1917-1918 and 1918-1919 indicate that the Netherlands' financial interests in Russia were studied; and though the results are not stated, the amount lost in investments in Russian Government securities alone is estimated at 1,000 million guilders, quite apart from the money sunk in Russian banks, timber, and oil, and other branches of activity.[6a] The losses in German, Austrian, Hungarian, and other securities were also very heavy, even if they were smaller than in the case of Russia; and to all this must be added the amounts which vanished in foreign exchange.

A commercial spirit has always been characteristic of the Netherlands, and when actual trade with other countries became increasingly difficult, this found expression more than ever before in wild speculation, for which fluctuations in exchange offered a ready opportunity, especially in German marks. The amounts thus lost defy even a rough estimate, but it is very possible that they exceed 1,000 million guilders.[7] A small part of this was recouped by investment in Germany itself, as by purchases of real estate, etc.; but conditions there, particularly in view of fiscal developments, made such properties exceedingly precarious and difficult to negotiate. It is possible, of course, to maintain that such losses were not really due to the War, but rather to this tendency to speculate. Such an argument is undoubtedly true to some extent, but we must not forget that this pathological phenomenon, both in extent and in direction, was most certainly connected with the general chaos resulting from

[6a] *See* D. R. Brandes de Roos, *Die Industrie, de Kapital Markt und die industriellen Effetten in Holland,* 1927, p. 74, who estimates the total amount of the Russian debt due to Netherlands bondholders at even 1.5 billion guilders.

[7] *Cf.* Nemry, *op. cit.,* p. 248.

the War. If the various rates of exchange had not shown such feverish fluctuations, there would have been less temptation to try one's fortune in this sphere, and speculation would probably have sought a healthier scope for its activities. The utter dislocation of exchange had plunged world trade, *i.e.*, the real exchange of commodities, into the morass of speculation, and thus necessarily aggravated the universal degeneration of business. There was, for example, great difficulty in importing goods from Germany, in that a competitor who bought marks for remittance a little later, and so more cheaply, could supply the same commodities at lower prices without suffering loss than an importer who had purchased his remittances earlier and at a higher rate of exchange. The fever of inflation which became worse and worse in Germany, especially after 1922, and which has no parallel of equal magnitude in all history, of necessity affected all countries which had commercial relations with the Reich.

When we remember all this, the unhappy condition of national wealth about 1922-1923 becomes only too comprehensible; yet even so, we have discussed by no means all the adverse factors. Thus far we have been able to support our argument to some extent by statistics, although they may be based on rough estimates; but it is impossible to express in figures the plight of agriculture due to the bitter need of artificial fertilizers and of fodder for cattle throughout the entire period of the War. Every nerve was necessarily strained in the agricultural areas to supply food for home consumption, though this could be effected only by ruthlessly exhausting the soil on a large scale. In particular, the small farmers in the sandy regions which cover half the area of the Kingdom suffered great impoverishment during these difficult years, and thus the Netherlands had been living on her capital here also, although the extent to which this has been consumed cannot be assessed even approximately at 100 million guilders. One could, however, see with one's own eyes how countless farmers of this type were gradually reduced to poverty and how the stock of cattle and swine disappeared almost entirely, so that even the production of organic fertilizers ceased.[8]

[8] See *Landbouwverslag,* 1917, p. viii: "In our sandy soils especially, where all revenue had thus far been derived necessarily from the stable . . . last year caused a complete disorganization which was all the worse since animal fertilizers were indispensable because of the scarcity of artificial

Despite the sacrifices of capital outlined above, all the exertions of Netherlands agriculture proved powerless to prevent an adverse development of the situation of the food supply, especially during the winter of 1917-1918, and from then until the armistice, so that grave undernourishment of all strata of the nation was unavoidable. The sweeping ravages of influenza in 1918 must doubtless be ascribed in great part to the universal reduction of the power of resistance. During 1918 this disease claimed 27.24 men and 24.30 women per 10,000 as against 0.55 and 0.80 in 1917 and 2.21 and 2.34 in 1919. The general movement of the mortality returns up to 1918 had shown only a slow rise, being as follows per thousand:

1914	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*	*1922*	*1923*
12.39	12.45	12.89	13.12	17.10	13.17	11.95	11.13	11.43	9.93

Obviously, production must have been gravely injured by the mobilization, which kept tens of thousands of sturdy men from their work; but here also there are no statistics to prove the extent of this evil. It was not until 1919-1920 that a census of production and consumption was taken in a number of branches of Netherlands industry, so that there are no data for comparison. Such figures, however, are among the most difficult of all, and they must be used with much circumspection since the parties interested are often reluctant to supply information. Even if there were reliable statistics for production immediately before, during, and after the War, it would still be impossible to isolate and evaluate the influence of this factor. Production is as complicated as the entire economic life of a nation, and the countless factors which keep the latter in constant activity affect the former as well.

To return to the mobilized men, part of their work, especially in agriculture, was done by those who stayed at home, by the aged, by *rentiers*, and by women and children. Here again, however, it is impossible to determine the amount of this partial compensation, though it is known to have existed. There were, moreover, the furloughs which enabled breadwinners occasionally to put their affairs in at least some degree of order, but many a business suffered severely since the mobilization forbade daily contact with its direc-

fertilizers. Hence, in view of future crops, expansion rather than limitation of live stock would be desirable."

tor. The activity of the Royal National Relief Committee was centered especially on aiding and maintaining the smaller enterprises which had been disorganized by the absence of their managers; and large sums of money thus spent, though far from adequate, will give some idea of the extent of the economic collapse which the mobilization definitely caused in countless undertakings. During these years, thanks to coöperation,[9] agriculture was able to surmount its difficulties better than other forms of activity, even though wheat, the principal breadstuff, showed a very serious decline in 1917 and 1918, whereas rye, despite many fluctuations, remained constantly below the level of 1913. The output of these two grains for the whole country was as follows:

Year	*Wheat* (*in hectoliters per hectare*)	*Rye*
1913	31.8	26.1
1914	33.9	20.9
1915	37.9	25.7
1916	31.1	20.5
1917	28.5	24.7
1918	31.9	24.
1919	30.4	25.8

The fact that cattle, the most valuable form of live stock, decreased in number from 2,096,600 in 1913 to 1,968,609 in 1919 was certainly due entirely to the crisis caused by the War. In 1917 imports of fodder ceased altogether, and its scarcity caused such a reduction of stock that in February, 1918, it became necessary to prohibit slaughtering. Swine actually declined below half their level in 1913, or from 1,350,000 to 600,100 in 1918. Although this symptom was particularly serious for small-scale agriculture, it was far less grave than the decrease in cattle, because of the greater fertility of pigs and the possibility of rapid recovery as soon as the situation improved. In 1921 the number of cattle was still only 2,062,771, or

[9] See *Landbouwverslag*, 1914, p. vii: "Although there was at first much justifiable anxiety lest the harvest would be unsuccessful because of the mobilization of large numbers of agricultural laborers and the commandeering of many horses just when it began, these fears soon proved to be groundless. Through a combination of mutual assistance and fine weather during the late summer and the autumn, crops were reaped in good season and in excellent condition."

33,829 below the figure for 1913, whereas the stock of swine, amounting to 1,519,245 head, showed an increase of 169,045 over that year.

The war profits reaped by the Netherlands from foreign countries—other financial gains need not be considered here, since they mean only a shifting within the country itself—have been earned by exports and shipping. It is true that there are further sources or items on the credit side of the balance, but for the period in question they are wholly negligible as compared with the two first named. When we examine the statistics of exports, we find much that chills optimism, and the development of the dry figures reveals a gloomy picture of anxieties and difficulties. In many respects, Germany is the Netherlands' hinterland, both because of her geographical situation and because of her highly developed industry and her dense population, especially in the Rhine provinces and in Westphalia. Before the War, and also during the earlier years of the conflict, Germany was the best market for many products of the Netherlands. Inflation, however, gradually rendered this more and more difficult and finally altogether impossible. That situation came to an end when the mark was stabilized, but by that time Germany had become too much impoverished to raise her imports from the Netherlands to the level of 1912-1913. Moreover, she now adheres to protective tariffs even more than before, and in order to meet her reparation obligations under the Dawes Plan she is compelled to aim primarily at a credit balance of trade and payments. Otherwise, the rate of exchange of the mark cannot be maintained because of the sums due from her on account of reparations.

Thus the Netherlands has been obliged to look for fresh outlets since her home market is both small and highly specialized. For foodstuffs and raw materials she depends on foreign sources, so that she is primarily a country of exports. Obviously this is not a happy situation, and the search for fresh outlets requires much time, expense, and risks. In this connection a few export figures may be cited as giving both the totals and the share of certain countries, as well as the percentages of aggregate exports from the Netherlands:[10]

[10] *See* the relevant *Jaarcijfers*.

	Country of Destination					
	Germany*		France		Great Britain	
Year	(millions of guilders)	Per cent	(millions of guilders)	Per cent	(millions of guilders)	Per cent
1913	1,363.2	44.2	31.4	1.	683.8	22.2
1914	1,043.5	41.6	23.1	0.9	602.2	24.
1915	714.2	40.8	61.8	3.5	476.	27.2
1916	520.3	38.6	59.7	4.4	395.5	29.4
1917	316.7	37.82	22.5	2.69	206.1	24.6
1918	158.4	37.95	11.8	2.85	73.8	17.69
1919	578.	33.38	47.8	2.76	485.3	28.3
1920	423.3	24.2	60.4	3.45	329.8	18.87
1921	254.3	18.57	84.6	6.18	351.6	25.67
1922	167.7	13.74	114.5	9.38	302.9	24.8
1923	186.7	14.33	126.1	9.68	359.6	27.59

	Belgium		United States		Total exports, including all other countries
Year	(millions of guilders)	Per cent	(millions of guilders)	Per cent	(millions of guilders)
1913	339.6	11.	131.3	3.9	3,083.
1914	219.4	8.8	164.	6.5	2,505.2
1915	113.9	6.5	117.3	6.7	1,749.2
1916	53.2	4.	101.8	7.5	1,347.2
1917	62.7	7.49	36.9	4.4	837.4
1918	20.4	4.89	13.6	3.27	417.5
1919	184.7	10.67	57.2	3.3	1,731.7
1920	179.2	10.25	87.4	5.	1,748.5
1921	169.5	12.58	46.9	3.43	1,369.5
1922	174.1	14.26	62.	5.08	1,221.2
1923	139.3	27.59	69.	5.33	1,303.2

* Until June, 1916, the figures for Germany apply to Prussia only, but after that, to the whole of the country. The following should be added:

1913	Hamburg	59.4	Bremen	55.7	(Germany 44.2% + 3.7% = 47.9%)
1914	Hamburg	33.7	Bremen	48.	(Germany 41.6% + 3.26% = 44.86%)
1915	Hamburg	0.05	Bremen	..	
1916	Hamburg	0.01	Bremen	..	

These statistics hardly call for comment. In 1922 exports had fallen to 40 per cent of the amount in 1913, and of this much reduced sum Germany's percentage had sunk to 14.33 as against 47.9. Here we find the entire reason for the Netherlands' depression in trade and commerce and the situation was still worse in view of the

decline of the guilder, so that after 1918 the figures must be reduced from 30 to 40 per cent.

For a large part of the population, and especially for the middle classes, this diminished purchasing power of the guilder has meant an impoverishment which has certainly received no full compensation through war profits from abroad that have benefited only a small and privileged group. There were more consumers than producers of everything, and to make matters worse, a great many people were unable to adapt their money income to the high cost of living. During the first part of the period of the War the only source for credit was the Netherlands Bank, which granted liberal loans so as to mitigate the crisis. No reproach can be leveled at the Bank in that respect, since this is one of its main functions, particularly during a critical period, even though it was rather too complaisant in regard to the requirements of the Treasury and the demands of the municipalities. Subsequently the latter were put on stated allowances, but such was never the case with the State. Furthermore, a considerable amount of money failed either to come into use or to remain there, and for a long time much of it was hoarded, although sooner or later it was bound to be circulated, thus further increasing high prices. Since business declined considerably because credit no longer existed, there was certainly no proportionate necessity for such a surplus as a means of exchange, even though the higher level of prices demanded a larger stock of money. The increased cost of living arose from causes connected with commodities as well as with media of exchange. When the credit market had overcome its worst tension, another reason emerged for the increase of money, namely, gold. The belligerents, and again primarily Germany, were quite ready to import from the Netherlands, but they would pay only in gold. The circulation of bank notes in September, 1917, had risen to 787.1 million guilders as against 310.4 million in July, 1914, or more than two and one-half times as much; current account balances had mounted to 80.1 million guilders as against 4.7 million in July, 1914; and the stock of gold had increased during that same period from 162.1 million guilders to 676.7 million, or more than quadruple. April 10, 1918, marked the highest figure ever recorded: 740.2 million guilders, or over four and one-half times as much as in 1913. On an average, 67.37 per cent of the liabilities payable on demand was covered by coin and bullion in 1917-

1918. Since then the stock of gold has slowly declined, amounting in August, 1923, to 581.8 million guilders and on December 21, 1925, to 447.3 million. At this latter date, however, the bank notes in circulation still showed the considerable total of 863.4 million guilders, and the balances in current account were 58.1 million, which, when combined, are thrice the corresponding items on the balance-sheet of 1913.

Although the guilder has been restored to gold parity, its value still remains depreciated for reasons that are not far to seek. Ever since 1917 and 1918, when distress was constantly rising, and when, during the summer of 1918, there was even danger of famine, the Netherlands has had a gold problem,[11] for doubts have frequently been expressed as to whether she has really gained any advantage from all this gold in the Bank which did not even render her the service of maintaining the exchange value of the guilder when she had bitter need of the prime necessities of life. For several years she has held this gold as dead capital within her own borders while the dollar exchange of the guilder has constantly declined, even falling to 3.37 guilders on November 8, 1920, thus marking a depreciation of 35.58 per cent in sharp contrast with its highest exchange rate on August 6, 1918, when it was quoted at 1.89 guilders, or a premium of 23.92 per cent. On August 2, 1921, the depreciation, measured in dollars, still amounted to 31.56 per cent, but after this it gradually improved, so that in December, 1922, it was only 1 per cent. The highest rate in 1923 was 2.71 guilders, or a premium of 9 per cent, on April 10, and the lowest was 2.53½ guilders, or a depreciation of 1.9 per cent, on August 9 of the same year. For 1920, 1921, and 1922, the average depreciation was 13.6 per cent. In the case of shipments from the United States this was equivalent to an import duty of equal amount, thus constituting no inconsiderable factor in high prices, particularly during a period of depression.

The resultant loss to the Netherlands is shown by the following simple citation of the value of imports from the United States: 1920, 526,088 thousand guilders; 1921, 392,289 thousand guilders;

[11] *See* C. A. Verrijn Stuart, *De toekomst van het goud,* 1917, and *De Goudkwestie,* 1918; G. Vissering (President of the Netherlands Bank), *De Goudquaestie, Antwoord aan Prof. Dr. C. A. Verrijn Stuart,* 1918, and the further literature regarding this controversy.

and 1922, 270,799 thousand guilders, thus giving evidence of depreciations of 16.8, 19.5, and 9.5 per cent, respectively. In other words, without such depreciation the following amounts would have been paid for these imports: 1920, 450,409 thousand guilders, or 75,679 thousand less; 1921, 328,275 thousand guilders, or 64,014 thousand less; and 1922, 259,137 thousand guilders, or 11,662 thousand less, giving a total loss in these imports alone of 151,355 thousand guilders simply on account of the high exchange rate of the dollar because of the depreciation of the guilder as expressed in terms of the gold lying idle in the vaults of the Netherlands Bank.

A considerable sum on the debit side of the national balance-sheet was due to unemployment and to strikes or lockouts, in so far as these were of abnormal extent because of depression and social unrest. It is, however, very difficult to estimate these losses quantitatively, since statistics of unemployment were not initiated until the period of the War, so that the precise extent of "normal" unemployment is unknown. We may take as our standard the figures for 1917, which were notably higher than those for 1916, although they fell far below those which prevailed subsequently. In 1917 there were 57,512 unemployment days per week, thus giving fifty times as much, or 2,875,600 days, per annum. If we put wages for that year at the low rate of 3 guilders per day, the loss would be 8,626,800 guilders, although in reality it was much greater, since interest, rent, and entrepreneur's profits likewise vanished. Let us limit ourselves, however, to wages, assuming the average daily amount to have been 3½ guilders for 1918 and 1919, 4 for 1920 and 1921, and 3½ again for 1922 and 1923, even though these rates also are rather low, especially when one remembers the stipends paid in the building trades and in official establishments, as well as in the mining industry and even in the poorly organized metal trades. The situation, in loss of working days and of wages, was as follows:

Year	*Number of unemployment days per annum*	*Loss in wages (in thousands of guilders)*	*Loss of days exceeding that in 1917*	*Loss of wages exceeding that in 1917 (in thousands of guilders)*
1918	4,261,750	14,916	1,386,150	4,851.5
1919	6,904,400	24,165	4,028,800	14,102.9
1920	7,007,750	28,031	4,132,150	16,528.6
1921	10,624,250	42,447	7,748,650	31,034.6
1922	11,668,750	40,840	8,793,150	30,620.2
1923	10,012,000	35,042	7,136,400	24,977.4
Total	50,478,900	185,441	33,225,300	122,115.2

Assuming that abnormal unemployment began in 1918, and taking 1917 as a standard of comparison, the crisis caused a loss, on a moderate estimate, of more than 33 million working days, representing at least 122 million guilders merely in wages. If we add interest and rent, we again arrive, on a low estimate, at a total loss of at least 200 million guilders as a result of abnormal unemployment.

With regard to losses because of strikes and lockouts, the statistics show that at normal conditions began with about 400,000 working days and approximately 160,000 men affected in some 800 establishments. The high numbers commenced in 1919; and if we take 400,000 days per annum as a proper figure, the abnormal loss of days and of wages in 1919-1923 was as follows:

Year	*Abnormal loss of days (in thousands)*	*Estimated average daily wages (in guilders)*	*Abnormal loss of wages*
1919	694.7	3.50	2,431,450
1920	1,933.9	4.	7,735,600
1921	983.7	4.	3,934,800
1922	708.3	3.50	2,479,050
1923	3,586.5	3.50	12,552,750
Total	7,907.1		29,133,650

The year 1923 was extremely abnormal because of the great strike and lockout in the Twenthe textile mills, this alone accounting, as already mentioned, for a loss of 3,317,480 days. Nevertheless, this struggle must be included in our statistics since it was caused by crisis conditions connected with export and with the manufacturers' demands for longer hours without increased wages

for time or for piecework. This loss of more than 29 million guilders because of strikes is again a very moderate estimate, for accessible statistics might easily justify the inference that this figure, up to the end of 1923, should be at least 150 million guilders above normal on account of strikes and other causes of unemployment, and that the total loss of national wealth for these reasons was at least 250 million guilders more than the regular amount.

The net result of our study can only be summarized as a conviction that although the Netherlands remained outside the War, she experienced its economic results in a high degree and still feels them daily in diminished national prosperity and greatly augmented burdens of taxation. She, too, faces the tremendous task of recovery. A small and densely populated kingdom, with heavy responsibilities both in the east and in the west, one must earnestly hope that future ministries, especially during the next decade, will constantly be mindful of this task. To accomplish this, they must lighten the crushing load of taxation by adhering to the balanced budget which has just been achieved, and they must construe their duties of statesmanship in a way which will give ample scope for energetic and talented leaders of industry to devote their activities to production on the largest and cheapest scale possible. However justifiable in themselves, those requirements of social welfare which can be realized only in a prosperous commonwealth must be sternly curbed during the period of recovery.

Whether a policy which must take heed of the great mass of the electorate will make this possible, is another question. The great masses have no notion of economic laws and possibilities, as the immediate past has conclusively proved; but in such case there is only one alternative: the consumption of national capital, with the prospect of progressive impoverishment. It is to be hoped that this time again the sober and practical tendencies in the national character of the Netherlands will retain the upper hand. To this end, however, politics should content itself with a modest place, allowing an unprejudiced and businesslike treatment of the great social and economic issues of this critical period.

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NOTE: The numbers I and II refer to monographs I and II of this volume.

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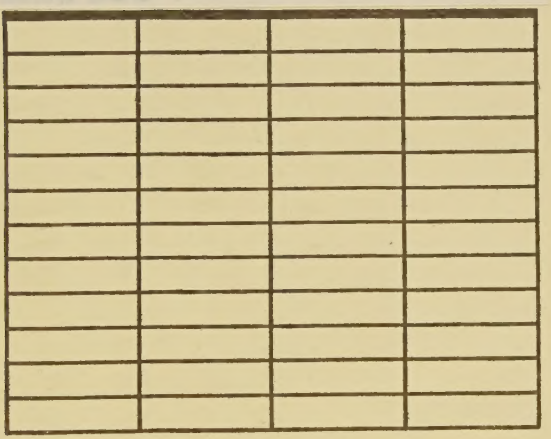

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